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# IMPACT OF CANADIAN GRAIN IMPORTS ON UNITED STATES PRODUCERS AND MARKETS



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BEFORE THE

SUBCOMMITTEE ON GENERAL FARM COMMODITIES

OF THE

COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

JUNE 11, 1993, GREAT FALLS, MT, AND
JUNE 12, 1993, MOORHEAD, MN

**Serial No. 103-22**

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# CONTENTS

JUNE 11, 1993, GREAT FALLS, MT



WITNESSES



SUBMITTED MATERIAL

# IMPACT OF CANADIAN GRAIN IMPORTS ON UNITED STATES PRODUCERS AND MARKETS

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**FRIDAY, JUNE 11, 1993**

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL FARM COMMODITIES,
COMMITTEE ON AGRICULTURE,
*Great Falls, MT.*

The subcommittee met, pursuant to notice, at 11:15 a.m., in the Missouri Room, Great Falls Civic Center, Great Falls, MT, Hon. Tim Johnson (chairman of the subcommittee) presiding.

Present: Representatives Peterson and Williams.

Staff present: Anne Simmons, Anne C. Keys, and Xavier Equihua.

## OPENING STATEMENT OF HON. TIM JOHNSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH DAKOTA

Mr. JOHNSON. This is a public hearing in Great Falls, Montana. Please come to order.

We are short on time, so we want to expedite things as much as we can to take advantage of the time available to the subcommittee.

We appreciate the Montana hospitality.

The thrust of the hearing today in Great Falls has to do with a review of the impact of Canadian grain imports on the United States producers and markets. This is the first field hearing held by this subcommittee.

The gentleman from Montana, Pat Williams, who is now a permanent member of the House Agriculture Committee, prevailed on me, and, at his insistence, our first field hearing is on this issue. He wanted very much for the subcommittee to come to Montana and listen to the producers and the agricultural leaders themselves.

There is no lack of experts in Washington who are anxious to share their views, but I think sometimes the most productive testimony and insights come from people who have to live on a day-to-day basis with decisions that are made or not made in Washington.

So I concurred with Representative Williams and I thought this would be a very productive and very useful hearing for the subcommittee. And we will take all the testimony in written form as well as staff notes back to Washington to share with the full committee and with the staff on the full House Agriculture Committee.

Over the last several years, and most recently, in particular, we have had a huge infusion of Canadian grain in the United States market, as well into other traditional markets, Mexico among

them, which has had consequences on the precedents of United States market prices.

We have attempted to enforce our view of the Canadian Free-Trade Agreement without much success. And we will be viewing, from the testimony today, the nature of impact that it has and alternative strategy and ideas about where we should go from here in order to make sure that we have a fair, level playing field for American producers.

With that, I would yield to my colleague from Montana, Mr. Williams, for his opening statement.

## OPENING STATEMENT OF HON. PAT WILLIAMS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MONTANA

Mr. WILLIAMS. Thank you very much, Mr. Chairman.

I want to again thank you for choosing Montana for the first field hearing of the subcommittee and choosing this particular subject that we Montanans, as well as constituents, Congressman Peterson's constituents, recognize the importance of this issue as do our neighbors to the north in Canada.

Let me, in welcoming both of you to Montana, tell my friends here something about you, if I may, Mr. Chairman.

Tim Johnson is our neighbor in South Dakota. He's chairman of the General Farm Commodities Subcommittee of the House Agriculture Committee. Many would say the most important subcommittee of all the agricultural subcommittees, certainly those of us who are members of the subcommittee say that about it.

The chairman has been a great aid to me over the past 6 months or so because he represents, by himself, the single State of South Dakota as I do the single State of Montana, so he has figured out how to make matters stretch and cut corners.

Mr. JOHNSON. We also are in the minority in our inter-House delegations.

Mr. WILLIAMS. That we are, Tim, I agree.

Tim has been in the Congress—selected in 1986, and has been a real stalwart for agriculture in his State and throughout the country.

Our colleague and friend Collin Peterson comes from Minnesota. He was elected at the beginning of the decade and is also a member of the committee. Mr. Peterson represents, I think, all of the Seventh District, if they still call it that after reapportionment, in Minnesota. It's some of the northern and central part of the State.

If you know the Red River area and down the lake area, and in the middle, that's Mr. Peterson's district. Or if you've been to St. Cloud, that's in his district.

I have not been to St. Cloud, but I have been to the Sauk Centre, the home of my favorite author, Sinclair Lewis, if you remember Elmer Gantry and Main Street. And if Sinclair Lewis were still alive, he would be a constituent of Congressman Peterson.

Gentlemen, I'm glad you're here.

Mr. Chairman, I'm glad you brought the subcommittee out. Because since I have joined the Agriculture Committee, and even before we worked on agriculture, I heard from folks all throughout Montana and, particularly this year, all across the Hi-Line who have let me know about the continued movement of Canadian

grain in ever increasing amounts into Montana and Montana elevators.

Montana and a few other Northern-tier States in this country are on the firing line of the international frontier of free trade and the effects of trade, which we've come to call free trade in the last few years, have been felt both positively and negatively in our State and other frontier States like ours.

The years following World War I were desperate years for Montana agriculture. Falling farm prices and the great drought set off a population exodus from Montana. And the numbers that left have never been completely replaced or reckoned. Montana farm families that lived through those times, and even more, of course, that have heard about those times and are, frankly, somewhat concerned that, with the right combination of problems, we could return easily enough, in agriculture, to those days.

Particularly, folks are concerned that we could return to those days if we don't assure through legislation equity paralleled with our trading partners.

Montanans support expanding international trade. No question about that. The very growth of the agricultural economy depends upon it and the premise of increased markets is built-in with the Montana grain industry.

Farmers in Montana and elsewhere do not want dependency on price supports beyond what is necessary to level out supply and demand. What they do insist on is expanding markets.

The United States/Canadian Free-Trade Agreement had good intentions, but some one-sided results so far as Montana grain farmers and cattle ranchers are concerned.

This hearing and others will begin to take a hard look at the very real shortcomings and inequities of that agreement.

I personally want to know what our Government intends to do in ways to correct the current problem before we expand into a continentwide North American Free-Trade Agreement, that now would also include Mexico. We should solve the problems of the United States-Canadian agreement, or know that we can solve them and that we're on our way to do it before we expand that.

If we don't, I fear that Montana could become a mere highway rather than a major producer; a corridor rather than a critical harvester. That is, a highway for grain heading south rather than a major producer on the world's grain market.

Last year Canadian wheat began to displace locally grown grains in elevators all across the Montana Hi-Line. When this marketing year ends, it will mark the fourth straight year of record United States imports of Canadian grain, Canadian wheat, while our grains don't have access to markets north of the border the way we believe they should.

About 42 million bushels of Canadian wheat came to the United States last year and it's estimated that could go as high as 50 million bushels this year.

Just a week ago, the three of us, along with some of our colleagues, wrote to President Clinton and Secretary Espy, whose seat, by the way, I have on this committee since he was a member of the committee before becoming Secretary of Agriculture. And we asked the President and the Secretary that the Export Enhance-

ment Program be used to counter what we find to be trade practices unfairly implemented in Canada.

We've always believed that Mexico should be offered an EEP wheat initiative.

It's frustrating for a Montana farmer to haul a load of grain to a local elevator and be told to turn around and haul it back home because the elevator has been plugged, or plagued, depending on how you pronounce it, with Canadian wheat.

The frustration increases, by the way, if that same farmer tries to haul that same truckload up to Canada for sale, after going through a set of hoops, which basically amount to a resounding, "No, turn your truck around, you can't bring the grain into this country," and the farmer turns the truck around and brings his grain back home. And, by the way, he drives it back home over chewed-up blacktop roads that have been damaged by convoys of overloaded Canadian semi's hauling grain to that farmer's hometown elevator that's now filled.

It's very frustrating for farmers along the Hi-Line. None of the inequities in the United States/Canadian Free-Trade Agreement are more glaring or harmful, personally, than our troubles with grain.

No one likes unfairness. The history tells us that it poisons goodwill between neighbors.

The Canadians are our neighbors. Our State enjoys the longest border with Canada anywhere in the United States. Our State enjoys the only joint international park on Earth, and we enjoy it with the Canadians: Glacier and Waterton.

Although the chairman is from South Dakota, the Dakotas, North Dakota, Montana, and Minnesota border Canada, that approximately half of the border between the United States and Canada is represented here at this table. So we think, for that reason alone, this is an important meeting for our friends on both sides of the border in both countries.

We and the Canadians, as you know, Mr. Chairman, are each other's most important trading partner. We are also each other's best friend. We want to keep her that way. I'm hopeful this hearing will help us keep it that way. Thank you.

[The prepared statement of Mr. Williams follows:]

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STATEMENT BY CONGRESSMAN PAT WILLIAMS
BEFORE THE HEARING
OF THE
HOUSE AGRICULTURE COMMITTEE
SUBCOMMITTEE ON GENERAL FARM COMMODITIES

FRIDAY, JUNE 11, 1993

Good morning and welcome to today's hearing of the House Agriculture Committee's Subcommittee on General Farm Commodities. I want to particularly thank the Chairman for his willingness to come out to Montana for this field hearing. I also want to thank my colleagues from our neighboring states who sit with me on the Ag committee for joining us here today.

Since I joined the Ag committee this year Montanans all across the Hi-line from Cut Bank to Wolf Point have continued to let me know of the continued Canadian grain movement into our local elevators.

Montana and a few other Northern tier states are on the firing line of the international frontier of free trade. The effects of free trade -- both positive and negative are felt by all those farmers nearest the borders.

The years following World War I were desperate ones for Montana agriculture. Plummeting farm prices and the long drought of the 1920's set off a population exodus from Montana whose numbers have never been completely reckoned. Montana farm families have heard about those times and frankly are somewhat concerned that we could return to those days without a level playing field on free trade. There is of course nothing wrong with expanding international trade. The very growth of the agricultural economy depends upon that and its the very premise that has built Montana's wheat industry.

The U.S. Canadian Free Trade Agreement has good intentions, but some one sided results as far as Montana grain farmers and cattle ranchers are concerned.

This hearing and others will begin to take a hard look at the very real shortcomings and inequities of the document. We need to fix these problems before expanding into a continent wide North American Free Trade Agreement that now will also include Mexico.

If we don't, Montana could become a mere highway for Canadian grain heading south, not a producer and a major player on the world's grain market.

Last year, Canadian wheat began to displace locally grown grains in elevators all across the Hi-line. When this marketing year ends, it will mark the fourth straight year of record U.S. imports of Canadian wheat, while our grains don't have access to markets north of the border. In fact about 42 million bushels of Canadian wheat came into the United States last year and it is estimated about 50 million bushels will come in this year.

Just a week ago my colleagues and I wrote to President Clinton and Secretary Espy asking that the Export Enhancement Program be used to counter unfair trade practices of Canada. We have always believed Mexico should be offered an EEP wheat initiative. By undercutting U.S. prices and using its freight subsidies to offset the U.S.'s proximity to Mexico, Canada has stolen this vital wheat market away from U.S. producers. It is our hope that this Administration should immediately extend an EEP to Mexico not only to salvage this wheat market for U.S. producers, but to send a strong signal to canada that it wants changes in its trading practices.

It's frustrating for a Montana farmer to haul a load of grain into the local elevators -- and then be told to turn around and haul it back home because the elevator is plugged -- in fact some would say "plagued" with Canadian wheat.

The frustration increases if that same farmer tries to haul that same truckload up to Canada for sale. After going through a set of Canadian hoops which basically amount to a resounding NO, you can't bring your grain into this country that same Hi-line farmer can turn his truck around -- again -- and bring his grain back home over chewed up blacktop damaged by convoys of overloaded Canadian semis hauling grain to his hometown elevator.

To farmers along the Hi-line, none of the inequities of the U.S. Canada Free Trade Agreement are more glaring or harmful personally than the troubles with grain.

Largely because of Canadian imports, durum wheat in Montana, North Dakota and Minnesota has gone from being the real Cadillac of wheats to compact car -- what was once the highest priced class wheat has become the cheapest.

Mr. JOHNSON. The gentleman from Minnesota, Mr. Peterson.

## OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. PETERSON. Thank you, Mr. Chairman. I want to thank Mr. Williams again for having us here in Montana. The only problem is we should have had more time to go trout fishing. That's one of my vices.

We very much want to say, first of all, we appreciate having your Congressman on the House Agriculture Committee. I've only been in Congress a couple years, but I got to know him prior to his coming to the committee. But since becoming a member of the committee I've gotten to know him a lot better and he's going to be a real asset to our committee, which I probably don't have to tell you folks. But I'm glad to have him with us and glad to have his help on this issue.

We've been struggling with this over in our area as well and I've been spending quite a bit of time on this issue personally. Some of you may have read press accounts about the—I've formed an anti-NAFTA caucus in the House of Representatives. One of reasons being, one of the primary reasons is because of what happened to us in the Canadian Free-Trade Agreement.

Over the last month I've been in Canada twice. Once in an official delegation meeting with Parliament members from Canada and once with a meeting that I organized with people across the border from us in Minnesota and North Dakota discussing some of these issues and trying to figure out how we're going to get through this dilemma.

One of the reasons that I'm so concerned about NAFTA is I'm one of the few people that actually read the agreement and a lot of problems that were created in the midst of the Canadian agreement have been also created in the midst of the NAFTA, especially in agriculture. And I think it's either a plot by people, which to, I think, some extent is true, these negotiators tend not to be people that think the way we do, or they just don't understand. And it's part of the problem, too, and they're going to be creating a lot more problems for agriculture in NAFTA than we already have and we don't need any more problems.

We've been meeting with the Department regularly, Senator Conrad and I particularly. We have a bill to require end-use certificates for grain coming in from Canada, which they require of us when it goes back the other way. We passed that bill in the House last year, but it got stopped in the Senate. So we're going to continue to push that.

We had one meeting with the Department; they were giving us some of their preliminary indications that they think that there's going to be a considerable amount of wheat and barley planted in Canada this year, outside of their licensing, using American varieties. They're talking maybe as much as 300,000 acres of additional lands that might be used for planting in Canada, and having that crop coming into this country.

The Department is concerned enough that they have been looking into the possibility of bringing a section 22 action against Canada.

Section 22 is a part of our farm law that says that if a foreign country does something that undermines the domestic agricultural program in this country that we can move to stop them. So it's something in the act and it's agreed to by different GATT nations.

So we are asking and supporting the Department in that regard because we feel that's what's going on with wheat and barley is undermining our domestic agricultural programs.

And, as Congressman Williams says, that we also are supporting the use of EEP against the Mexican market, because we've lost most of the Mexican market to the Canadians over the last 3, 4 years, partly because of some of the inequities that were created by the trade agreement.

And, in addition, I met with the—I've been having this go-round with Mickey Kantor. We got into a fight over—he was organizing a group within the Trade Department to lobby in favor of NAFTA, which is against the rules and regulations, and I caught him doing it and we've been kind of going back and forth, and he stopped doing it. But I also became curious in looking into all of this as to how these people get put on a panel.

As you may know, when we had the problem with the current wheat panel, we lost that dispute, even though three on the panel were from the United States and two were from Canada.

When I looked into it a little further, from what I can tell, the people that get put on these panels are—come off of a list, and the list is created by the Trade Office, and, near as I can tell, these people are all people that have connections to the Trade Office and to the big multinational corporations, and all of these people that negotiate these agreements.

So yesterday, or the day before, I asked the General Accounting Office to go in and do a study of about how that actually works so we can figure out who actually is involved in it and see if this is some of our problem; we have the wrong folks guarding the henhouse.

So we've been doing quite a bit of work, all of us, in different ways, and we hope that at this hearing today we can find out from some of the folks here their ideas and maybe some possible solutions as to where we can go from here. And I would very much appreciate many votes on this issue and I appreciate being here in Montana.

Mr. JOHNSON. I want to thank the gentleman.

Pat has an announcement.

Mr. WILLIAMS. Thanks, Mr. Chairman.

Secretary Espy asked me to inform folks here at the hearing that yesterday he and the Montana State ASCS committee—he appointed his own committee in Mississippi first and then turned to Montana and appointed us next. Nancy Peterson of Havre is the chair, Shirley Ball of Nashua, and Brian Switter of Whitefish are the other members.

Thank you.

Mr. JOHNSON. Thank you.

I want to expedite things because we have a limited amount of time, but let me lay down the ground rules so that everybody understands.

Because we do have some important testimony, and because, if at all possible, I'd like to leave a bit of time toward the end for people who are not formally on the panels who may have insight or a contribution they want to make, I'm going to enforce the 5-minute rule.

We have a green and red light up here which, hopefully, works. I won't slam anybody with the gavel, but the idea is 5 minutes of testimony. The red light comes on, when that comes on, if you haven't already wound up, be thinking about wrapping up the final portion of your testimony, and then we'll have time for questions and we can come back to that.

And I'd ask everybody, including the members of the subcommittee, to abide by that restriction so we get on with things. And in the event that we don't have a great deal of time with the conclusion of the hearing—because we do have to move on to North Dakota, in Fargo, and catch a flight for that purpose. In the event that we don't have enough time to listen to the testimony of everybody who might want to make a comment, I would, without objection from the subcommittee, receive into the formal record any letter or witness statement that anybody might want to make that is in this audience relative to the issues at hand.

And so we would have that as part of the subcommittee record and be able to share with other members of the subcommittee and staff back in Washington.

With that, we will proceed to the first panel.

This panel is composed of Mr. Herb Karst, who is a producer from Sunburst, Montana; Mr. Roy Jensen, who is president of Unifarm of Shaughnessy, Alberta; Mrs. Sharon Norman, who is chairman of the grains committee, Women Involved in Farm Economics, from Malta, Montana; and Mr. Urton, who is a member of the Montana Farmers' Union, from Vida, Montana.

I thank you, to members of the panel.

And, again, what we will do is take testimony. You may want to summarize your statements, your full statements are received into the record, but whatever you're most comfortable with, whether you read a statement or whether you feel best to summarize it and express in your own words the point of view.

We will take each member of panel and, at the conclusion of the panel, then we will open for some questions and further follow-up at that point.

So we would go first with Mr. Karst, if you want to proceed.

**STATEMENT OF HERBERT S. KARST, DIRECTOR, MONTANA GRAIN GROWERS ASSOCIATION, AND DIRECTOR, NATIONAL BARLEY GROWERS ASSOCIATION**

Mr. KARST. Thank you for this opportunity to appear before the subcommittee today with a few of my thoughts, my fears, and my frustrations with the recent disruption of what had been a rather orderly grain marketing system in this area.

Let me begin by stating that I feel it's absolutely absurd for the United States, after years of struggling with massive grain sur-

pluses and finding a way to move those surpluses to the international market, to begin importing huge quantities of these same commodities.

Some trade estimates are that we will import 130 million bushels of wheat, barley, and oats from Canada this marketing year. And this is enough grain to fill 633, 52-car unit trains, or one continuous train stretching all the way along the Montana Hi-Line from Cutbank to Culbertson, a distance of 380 miles.

What will happen next under the guise of free trade? Will they try to move ice cubes to Alaska or oil to Saudi Arabia?

The Canadian Free-Trade Agreement, or any free-trade agreement for that matter, is designed to ease the way for the importation of products that either the importing country cannot produce in large enough quantities or can't produce economically enough to satisfy consumers.

Canada imports large amounts of soybeans, because soybeans don't grow well in the northern latitude. The U.S. imports large quantities of canola, because U.S. producers don't produce enough canola to satisfy the U.S. market.

To this agricultural trade there should be no barriers. But, however, when one country enters another country's marketplace with the intent to relieve itself of surplus commodities and to sell those commodities at any price, then that is called dumping and has been and should be illegal.

Should you disagree with this assessment, then let me ask you further questions.

First, I challenge the farmers of the Canadian Wheat Board to prove that Canadian farmers are satisfied they can produce feed barley for $1.70 a bushel or wheat for $2.50 a bushel. Can they cover all their expenses including land, labor, machinery, variable production costs, handling, and freight to the American market for those prices or below?

Of course not. Not without subsidies.

Yet much of these 130 million bushels are moved into this country at a price of less than that.

Second, will the American consumer benefit from moving these excess commodities into our country when there's already less than 5 cents worth of wheat flour in a $1 loaf of bread, or less than 5 cents of oats in a $4 box of Cheerios, or less than 5 cents worth of barley in an $8 12-pack of beer?

Then the consumer has very little to gain from a further reduction of agricultural commodity prices, so the answer is obviously no, the consumer isn't going to gain.

But the effect on our local markets has been devastating. Breweries are canceling their malt contracts to the United States and, instead, contracting for the same barley in Canada. Every major malt contract was reduced in price this year; the biggest 1-year hit malt barley growers have ever taken.

Feed barley and wheat prices are also continuing to spiral downward.

Furthermore, many northern Montana producers have developed these markets by spending thousands of their own dollars to market promotion and to promote the end products for the use of their grains. Montana farmers have contributed millions of dollars

through the checkoff system to the Montana Wheat & Barley Committee to find markets for their grains.

And, in addition, the producers of this Nation have spent billions idling land under the acreage reduction programs and complying with the restrictive sodbuster, swampbuster, and conservation compliance provisions in the farm bill, and tight chemical controls of the EPA. Billions of additional taxpayer dollars have been spent idling land under the conservation reserve program in part to cut our grain surpluses and to buoy prices.

Why are we now willing to give these gains away?

Who will benefit from this grain dumping? The commodity traders and grain buyers are the ones who have some room to benefit because they have the luxury of handling more grain contracts or more bushels with fewer dollars. Yet even they seem to find the situation distressing.

I urge Congress to make two changes in our trade relationship with Canada. First, we must not allow the importation of any commodity for a price less than the cost of production. This has been and will continue to be a basic principle of all international trade agreements. And, second, we must insist that all grain imported comes from producers who are willing to subject themselves to the same environmental regulations and land set-aside requirements that face us, the U.S. farmers, then we will truly have a trade agreement that is both free and fair and to the benefit of the producers and the consumer on both sides of the border.

[The prepared statement of Mr. Karst appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Karst, for the testimony.

We'll go to Mr. Jensen.

## STATEMENT OF ROY JENSEN, PRESIDENT, UNIFARM, EDMONTON, ALBERTA, CANADA

Mr. JENSEN. Thank you, Mr. Chairman, and I thank your subcommittee for inviting us here to take part in this panel discussion.

I am president of Unifarm, but I'm new as president and I certainly haven't any experience, really, in the export of grains out of Canada or into Canada and I feel that you could have probably found somebody with a lot more expertise than I have. But we feel that we need to properly state some of the issues that confront us and that we feel, so I've come down here to try and do that.

I am pleased to have this opportunity to appear before this subcommittee, and it is my sincere hope that what I have to say will help put into clear perspective some of the issues referred to in your invitation.

I believe that a vast majority of Canadian agricultural producers support the principle of free trade, as do the members of our organization. However, from time to time we must be concerned about the interpretation and application of some of the articles of agreement.

For example, in September 1992 we were compelled to voice our objection to the new $1 billion initiative under the U.S. Export Enhancement Program. In our view, the program itself and particularly the initiative referred to clearly disregarded the intent of article 701 of the United States/Canadian Free-Trade Agreement.

You will be aware that article 701 says that, "Each party to the agreement shall take into account the export interests of the other party in the use of any export subsidy on any agricultural goods exported to third countries, recognizing that such subsidies may have prejudicial effects on the export interests on the other party."

We drew little comfort from assurances that the program, and the new initiative, which offered subsidized exports to countries not so favored in the past, were aimed at the European Community. We recognize that. However, the effect would have been no different had it been aimed directly at Canadian producers.

With regard to trade between our two countries, we're aware that producers and others in the United States have objected to exports of Canadian wheat into that country. And it is said, for example, that the Canadian Wheat Board is competing unfairly with U.S. producers because it pays transportation costs on wheat moving into the United States.

That may be technically true because, as the agency charged with the responsibilities of marketing certain volumes of grain, it becomes the shipper. But please understand the shipping costs are actually borne by the grain producers since these costs are deducted from the payments received. That's for grain going into the United States and not going to the exports.

We want to assure you that the Canadian Wheat Board, a highly respected agency worldwide, is simply dealing with specific problems for the producers of the products under its jurisdiction. It seeks out markets for products and tries to obtain the best possible prices, which are then pooled.

Pooling means all producers receive the same price, less their share of transportation costs, depending on distance from the export point. The costs associated with doing that job are deducted from the pool account and the balance is then paid to the producers.

Some concern has also been expressed about the effect the Western Grain Transportation Act may have on prices of grain exported from Canada to the United States. Certainly its encouragement of off-shore exports will help shore up our prices to some extent, but not nearly as much as your Export Enhancement Program, which supports prices in the United States.

In fact, if there were no Western Grain Transportation Act to cover part of those costs of moving grain to tidewater, there would be greater pressure, much greater pressure, to sell Canadian grain to the United States, at even lower prices.

The average farmgate price for No. 2 wheat in the 1991–92 crop year was $2.89 Canadian. That's $2.02 United States, I believe. And for feed barley was $1.72 Canadian, and that's for prior years.

Furthermore, it must be understood that it is most unlikely that the Western Grain Transportation act would play a more direct role in exports of Canadian grain to the United States. The freight subsidy being paid under the act is paid only on grain being moved to terminal positions at Thunder Bay and the west coast.

One other concern we have heard expressed has to do with the possibility of Canadian grain flowing into the United States and mixing with grain being exported off-shore from the United States.

We note that you are examining the possibilities of imposing end-user certificates, as we do in Canada, to offset that concern.

I might say that might be withdrawn in Canada, in this instance.

In closing, I want to give you a thumbnail sketch of Unifarm's philosophy on trading arrangements.

Trading arrangements must benefit all parties agreeing to such arrangements. To achieve that, agreements must be negotiated in good faith and with the same sense of fairplay. They must be interpreted and applied with those characteristics foremost. To achieve that there must be clear understanding of practices and systems employed by our trading partners. This, in any event, is my view.

We have enclosed herewith many tables showing prices of grains in different areas that we get and how much our cost would be in order to ship those things.

If I could just add another point or two. I appreciate Mr. Williams who said that we are each others' best friends, and we certainly are, and that we're also best trading partners, and we certainly are that. And we certainly want to keep it that way. Thank you very much.

[The prepared statement of Mr. Jensen appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you. Next, Mrs. Norman.

## STATEMENT OF SHARON A. NORMAN, GRAIN CHAIRMAN, MONTANA WOMEN INVOLVED IN FARM ECONOMICS

Mrs. NORMAN. Montana Women Involved in Farm Economics, WIFE, appreciates the opportunity to be able to testify at this hearing.

We do support the endorsement of the end-use certificates and Montana WIFE has also made a recommendation that we cover our grains such as the Canadians do.

On Durum wheat, our national WIFE president, Joyce Spicher, was asked late in 1992 by Senators Leahy and Lugar to present testimony on trade issues. She offered the following testimony: "Rules of origin should be strengthened and enforced for all commodities, not just a select few. The American Durum wheat market has been destroyed by imports following the United States/Canadian Free-Trade Agreement." She feels that, "No segment of American agriculture should be singled out and sacrificed for an agreement."

It is interesting to note, that Maine potato producers are having problems with Canadian potato dumping. The Maine Senators, Mitchell and Cohen, contacted Mike Espy and said the volume of Canadian potatoes exported to the United States through—to the United States into Maine as of April 1 was running 129 percent ahead of 1992. They urged a temporary duty be placed on imported Canadian potatoes.

Then we go into an article by Philip Brasher in the Ag Week, this pertains to sugar. "After several years of delay the U.S. Government is preparing to impose tariffs and quotas on drink mixes and other food imports to protect the U.S. sugar growers."

Agriculture Secretary Mike Espy has written President Clinton, urging him to take those measures as an emergency basis. Industry officials expected President Clinton to approve them.

A recently released report by the International Trade Commission says manufacturers are avoiding U.S. sugar quotas by importing drink mixes, gelatins, and other items made with cheaper foreign sugar. This is when the United States had bumper sugar crops.

I only mention this because it is not just a wheat and barley problem, it is every segment of American agriculture we have to consider as being hurt by our free-trade agreements.

No agricultural organization is against free trade. We want fair trade. We want two-way street trade.

I have additional testimony from people in my area in northeastern Montana that will be submitted considering the Canadian grain problem. Thank you.

[The prepared statement of Mrs. Norman appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you.

And the final member on the first panel, Mr. Urton.

## STATEMENT OF JOHN C. URTON, MEMBER, MONTANA FARMERS UNION

Mr. URTON. Mr. Chairman, members of the committee.

I have been farming in northeast Montana, near Vida, for the last 14 years. We produce grain and Spring and Winter wheat and some barley. I am here today to talk about the unfairness of the Canadian Free-Trade Agreement on the Montana, and most likely, U.S. farmer.

In January of 1993, the Canadian grain began to be brought down by trucks and sold to the local elevators in Wolf Point, Montana. A manager in Great Falls for the company said it could become a common practice, according to the Wolf Point Herald. The manager said that they had already loaded one 52-car freight train with the Canadian wheat and expected to load another one.

Most of the wheat brought into Wolf Point, according to the Wolf Point Herald, was No. 2 Spring wheat with 2 to 4 percent frost damage. This is a lower quality of wheat than what most Montana farmers grow but can still be used for human consumption, the Herald reported.

This type of wheat, Spring wheat, usually grown in Canada, is called Grandin. This is a lower quality of wheat that, in Canada, is considered a feed grain. But, in the United States, we consider it a milling grain. Therefore, in Canada, the Grandin wheat fetches lower feed grain prices, while here in the United States the same wheat will bring much higher milling grain prices.

Since January of this year, wheat prices have dropped from $3.29 to $2.46 a bushel. I cannot blame this drop of 83 cents, or 25 percent of my income from grain sales, on just the influx of Canadian grain into the United States. However, I do know that grain market prices are influenced by a few things, including the condition of the new crop that is being grown, the amount of surplus grain in storage, and the amount of current exports.

It is truly amazing to me in these times of current new crops, large surpluses and a lack of exports, that we are importing more grain from Canada.

I spoke with a Canadian grain elevator district manager in a phone conversation and he said that he did not think the Canadians were selling any grain to the United States currently. The reason he gave for this was the prices here in the United States are so much lower now.

When our United States price does get high enough again, I'm afraid the Canadians will flood our markets and suppress the price. Lower market price will hurt farmers, but they will also mean more money will be needed by deficiency payments, and at a time when the Government is trying to reduce spending.

There are other ways that the Canadian grain coming down can have adverse effects on our communities. One problem occurred at an elevator that contracted the Canadian grain. Some of the area farmers who had contracts with the elevator, including my father-in-law, were told not to bring the grain into the elevator during this period as they could not handle local grain at this time.

This can be a hardship on farmers who need to deliver their grain in order to get money to pay bills or buy groceries.

Still another problem concerned the other local elevators, which includes one cooperative elevator, and their customers. In January, most elevators were plugged, meaning they were full and could not accept any grain until they could ship it out. The problem was that grain cars were in very short supply.

I, myself, had to wait about 3 weeks to deliver my wheat to two elevators I had sold it to.

According to the Wolf Point Herald, the trains used to ship the Canadian grain out of Wolf Point this winter were COT trains, which are awarded to the highest bidders. The elevator manager in Great Falls confirmed to the newspaper that the company paid a high price for the trains.

This elevator, I believe, could afford to bid higher for COT trains because they are probably making more on a bushel of Canadian grain than an elevator handling local grain. This is very unfair to the local farmer when the Canadian wheat can be delivered and shipped out while the local grain sits.

Where the Canadian grain is going and what is it being used for is another concern. There are no end-use certificates required of this Canadian grain, and who knows where it is going or what price is being paid for it.

Some elevator workers that I have talked with are convinced that it is being blended with U.S. grain, sent on to mills or, even worse, being sent out on the EEP program.

I am bewildered by the fact that our Government has spent so much time on these trade agreements, such as CFTA and NAFTA, and even the GATT talks. As the Canadian Free-Trade Agreement shows these trade policies will not help the American producer. The Canadian Free-Trade Agreement has not opened markets for us, the U.S. farmers, as Canadian grain prices are much lower than U.S. prices.

In conclusion, my main concern with the Canadian wheat being imported through the CFTA is that it is, and will, adversely affect the price we receive here in the United States for our grain. American grain farmers are having a tough time. Our target prices have been lowered the last few years, our costs, especially machinery

costs, have risen and major purchases have been put off, and market prices have gone down.

According to Secretary of Agriculture Mike Espy, the U.S. farmer averaged about $6,000 a year in income. This is not a livable wage for anyone and is not a workable return on anyone's investment. This means farmers are not paying income taxes and some may need Government assistance programs.

Any policy that will add to these conditions would be a big and costly mistake for the U.S. Government and I feel that the importing of Canadian grain is such a policy. Farmers and the U.S. Government will both benefit when policies such as the Canadian Free-Trade Agreements are ended and farmers are simply guaranteed a reasonable price for what they grow.

Thank you.

[The prepared statement of Mr. Urton appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you.

Mr. Karst, you made some reference to the fact that Canadian-imported grain is affecting the quality of the wheat that the United States exports. I wonder if you can elaborate on that point?

Mr. KARST. Canada and much of northern Montana was plagued with an early snowstorm last August 22. The damage to a lot of quality Spring wheat, particularly in southern Alberta and southern Saskatchewan, much of this grain that moved into the United States was this frost-damaged and sprout-damaged grain which was then rejected by the Canadian Board as milling wheat and was exported to the United States as feed grain.

It was, however, blended with U.S. wheat, thereby lowering the quality of the wheats that we exported to Japan.

And, by admission of many elevator companies, we're exporting this Canadian grain, not under EEP, but exporting it, while the premium quality wheat produced in Canada that wasn't frost damaged or was harvested before August 22 moved through the traditional Canadian markets, thereby keeping their reputation for good wheat while we gained the reputation or reinforced the reputation for shipping poor-quality wheat.

Mr. JOHNSON. Mr. Peterson and Mr. Williams have both been the leaders in the House of Representatives in pushing for legislation involving end-use certificates. Given the current circumstance with any use of a similar procedure, what would your view be on legislation of that kind in the United States?

Mr. KARST. I think there's no doubt that while we're receiving assurances that this grain isn't going into the countries whose exports are subsidized under EEP, there's absolutely no way to track the grain under the present system, whether it's bought and sold by the grain companies, to track and make sure that it isn't. This will at least assure that's what's happening now is legal under the law, with the end-use certificates. So I suppose it's a small step.

Mr. JOHNSON. I think you have a good point. The insult on top of injury is not only to have large inflows of imported grain but to subsidize it again in the context of an EEP sale.

Mr. Jensen and, again, I appreciate your willingness to join us here today. I think you are absolutely correct that the United States and Canada have a long-standing, very positive relationship

and are strong trading partners and have a very similar political culture, and it is not in either of our interests to have any kind of trade war or chronic dispute. And where we have differences, and we always will have some, we need to find mechanisms resolving those.

I wonder if you could elaborate a bit on the transportation subsidy issue. One of the intentions from the American perspective is that the Bi-National Dispute Panel found that the transportation subsidy of Canadian grain west and east of Thunder Bay was not availing of the free-trade agreement because that subsidy is a domestic subsidy, although obviously puts it in a much stronger place, more than the United States.

You don't find the transportation subsidy to be an extra advantage the Canadian producer would have over the American producer?

Mr. JENSEN. Mr. Chairman, I don't really see where it would have anything to do at all with grain coming into the United States, because it's only paid on grain to reach seaports for export, and from that point on. And the grain coming into the United States comes straight from the farmers in the elevators. So I really don't see how it would have any effect whatsoever.

But if it was taken off, it would put a greater pressure on wheat to come this way, wheat and barley both, on all grains to come this way, because it would be a better deal. There would be that $24 a ton, or so, that we're getting on freight, seaports, and wouldn't be getting any longer.

Mr. JOHNSON. One of the other points of contention that we have from this country and, again, the Bi-National Panel ruled against the United States, saying that the only subsidy they would consider is the initial payment from the Wheat Board to the farmers. But that payment really constitutes only about 80 percent, particularly of the grain farmers season average price.

And, for example, if the acquisition cost of wheat is $2 in Canadian, can't sell the wheat into the United States, that—U.S. prices averaging higher than $2, gives the Canadians quite a lot of room to undercut U.S. prices.

Would you agree or disagree with that?

Mr. JENSEN. I can't quite see that. I'm not sure I understand what you're asking me. But there's no way we're going to sell grains, whether it's barley or wheat, for less than we can get in through the Wheat Board in export positions. That's the first place you're going to sell it to. So only if you can get a little bit more—myself, I grow barley. You sell to the industry. Feeders sell barley 25 cents a bushel more than what I get from the Wheat Board for export. So if I can get more than I get, then I'm willing to sell it to whoever wants to offer it to me.

But when we look at the subsidy area, especially on barley, we recognize the United States did some—47 percent is subsidy on barley and Canada is only about 24 percent.

Taking into account all of the things, like our—we don't really get direct subsidies. What we do at this point in time is have insurance programs, which our premium is shared by the Government. And, also, if we go in the hole, it's picked up by the Government.

But, of course, they pick it up hoping that next year won't be anything, and the agreement is to put money back in.

So that the agreement of subsidies, we're getting this considerably less than we're getting here. In many instances we're not getting the value that it costs us to grow that grain now. But that's gone down the last 4 or 5 years since the EEP program has been in and so, of laying equal blame, really blame the Europeam Community and Wheat Trade Board Association.

The problems that the farmers in Montana and Canada have are the——

Mr. JOHNSON. Montana export—I'm trying to abide by my own rules.

Mrs. Norman, you are in favor of the end-use certificate approach for the American legislation at this point in time; is that correct?

Mr. URTON. If you're going to continue this agreement, then you have to have something to protect us, yes?

Mrs. NORMAN. Yes.

Mr. JOHNSON Thank you. I would yield to Mr. Peterson.

Mr. PETERSON. Thank you, Mr. Chairman.

Mr. Jensen, I am curious, I probably should know this, but—I've been grading GAO reports, but the Canadain Wheat Board, and trying to understand what the history of all this is, but did something change in the Canadian agreement whereby you can now sell grain into the United States where you couldn't before? Or have you always been able to sell grain in the United States?

Mr. JENSEN. No, we haven't. Unless, of course, we sold and bought it back from the Wheat Board.

Mr. PETERSON. So something happened internally?

Mr. JENSEN. In the last few days now the Minister changed the ability for us to sell barley. We can sell straight into the United States or to import domestically.

Mr. PETERSON. But that was not the case before?

Mr. JENSEN. That was not the case before.

Mr. PETERSON. You had to sell everything to the Wheat Board?

Mr. JENSEN. My understanding was, it went first to the elevator system, you know, and could sell it from there.

Mr. PETERSON. But you could not bring it across the border, they would not give you clean——

Mr. JENSEN. There are other people that know more about that than I do, actually, from Canada, but that's my understanding. Could not, unless, of course—that's why they wanted that taken off. They wanted the ability to sell straight into the United States, so they didn't need to have that additional cost on that barley before it was sold across the border.

Mr. PETERSON. And this change, is that why the Department of Agriculture thinks there's going to be so much additional land put in produce up there, using American varieties, because now you can sell right across? Is that the result of this?

Mr. JENSEN. There was a study done that many of us don't agree with, and that suggested that type of thing would happen. Also suggested—large premium on malt barley up there. That premium won't come off so they're suggesting we would grow feed barley instead and give us more bushels per acre and more total bushels, is what the study suggested.

It might be right. I don't know. But they can't get the premium on the malt, they're most likely going to grow wheat or something to give more dollars per bushel like they're expecting off the malt.

Changes for the malt and changes for the barley, also. But they also opened up the market so barley can go both ways. And that puts us in a very precarious situation, but you are a lot better than we are in that situation. You could flood us right out very easily.

Mr. PETERSON. Got a bunch of land that wasn't in production in Canada?

Mr. JENSEN. No.

Mr. PETERSON. So why was the Department telling us there was going to be 300,000 acres brought into production? It sounds like——

Mr. JENSEN. It's only a switch from one grain to another that they must be talking about.

Mr. PETERSON. Mr. Urton, before I run out of time here, this 52-car freight, where did it go, do you know?

Mr. URTON. It headed out West, as far as I know. When I saw it being loaded on—there is something else. These elevator companies were not only telling farmers, "You can't bring your grain in here," but the elevator companies were working almost 24 hours a day bringing grain down. Now, would they do that for the local grain grower? No, they don't. They don't work on Sundays. They may take Saturday morning and help a guy out, but they will not do this for the local grain growers because they're just not making the dollars they are on the Canadian grain.

Mr. PETERSON. So it went west. Where would it go, into some——

Mr. URTON. I have no idea where it went. That's the big question, where did it go?

Mr. PETERSON. Back to Mr. Jensen. Maybe you don't know. I think you mentioned something about—that this transportation subsidy wouldn't make any difference because—for product coming into the United States.

But would you not agree that probably the reason that we lost our Mexican wheat and barley market to you folks was because of this transportation subsidy?

We used to have 75 percent of that market, you had 25, now you have 75 and we have 25. And that's just happened since the Canadian Free-Trade Agreement has gone through. Some of our people think it's because of the transportation subsidy and you're shipping it down to Mexico using that subsidy undercutting us.

Mr. JENSEN. It must be remembered that the subsidy is not just this year, it's been there since 1991. It's being paid in a little different way than it's been paid for before, and supposed to be paid a different way yet here in a year or so. But no, the only reason, really, that it's moving down there is because grains are not so low that now—the price is that much lower of grains in Canada because we can't sell it anymore. So probably they've been able to get the price that low that they could compete in that market.

Mr. PETERSON. The transportation subsidy has to have some bearing. Fifty cents a bushel. It's going to make a difference on how much you can sell it for.

Mr. JENSEN. Yes, but it's been there all the time, is what I'm saying, so it's not——

Mr. JOHNSON. Would it not also possibly be part of the explanation for this change in marketing Canadian grain to Mexico that the Canadian Wheat Board has sought to market your grain in countries that have not been EEP markets of the United States, and you've been pushed out of some of the markets in the United States, and the United States have been——

Mr. JENSEN. Yes, that's probably true.

Mr. PETERSON. In any event, maybe a component, in any event, of the rationale.

All right. I recognize Mr. Williams.

Mr. WILLIAMS. Thank you, Mr. Chairman.

Mr. Karst, the meeting that you held with a group of your friends and neighbors up at Sunburst was one of the things that brought the attention of the subcommittee to the dilemma here in Montana along the northern tier, and we're grateful to you for having that meeting.

Mrs. Norman, we just had breakfast with your folks that are back in Washington, at their convention, and it is an honor for one of our own to be the president. I understand the annual convention will be in Bozeman later this fall or winter, November.

Mr. Urton, I'm told that you have one of the few dry spots left in Montana down there. Did you get any rain out of there last week?

Mr. URTON. Yes, we did get six-tenths, I believe it was last Monday, so it kind of helps a little bit.

Mr. WILLIAMS. Mr. Jensen, I want to join the chairman in thanking you for being here. Canadians and Americans enjoy going both ways across this border but, sometimes, on issues like this, it must be a little difficult to come down and visit with us and have us point fingers at you. But we're very appreciative of you being here.

I want you to know the subcommittee has invited members of several organizations and also asked the Wheat Board to have a representative here, and Unifarm was the only one that responded, and we're grateful to you.

Mr. Karst, you're right there, made the contention that U.S. farmers might have higher costs than you folks do up in Canada, particularly because of environmental regulations and land-use restrictions. How do you see that from your side? You know enough about our regulations and restrictions, set aside, and the rest of it down here to respond to that.

Mr. JENSEN. Well, as an observer, I don't really have the facts on it, but I wouldn't think so. We certainly have the same costs and machinery and equipment, more costs, really, than—mostly all imported from the United States, whether it's tractors or machinery, or some machinery, of course, made in Canada. So, of course, we got excise tax and things like that added to those type of costs.

But environmentalists are after us just as much as anybody else, maybe some places maybe more than others. I really wouldn't think so.

Mr. WILLIAMS. Let me ask any of you, perhaps each of you to respond quickly to this in the 4 minutes that we have remaining. There's been a lot of thought in the Congress that in order to have

true free trade, fair trade, whatever it is you want to label this thing, it really would be necessary to have uniformity among nations with regard to environmental standards, inspection, rating, and classification standards.

First, do you agree with that and, second, is that possible? And if not, is fair trade possible?

Mr. Urton.

Mr. URTON. I do think that there needs to be some work over in the grain and the wheat. Canada has a different grading system than the United States does. Just like I was talking about in my testimony with the Canadian wheat, when they can go ahead and grow the Spring wheat that is a feed grain in Canada and get feed grain supplies but still sell it down here to the elevators on the human consumption level, milling grade wheat, something should be looked at. And it would help too to get that reworked.

Mr. WILLIAMS. Mrs. Norman.

Mrs. NORMAN. WIFE does support that the United States grain standards be set to equal or surpass our worldwide customers. And we also support the price of the grain according to quality when sold by the producers at the first marketing point. But as for being able to be uniform, Montana WIFE has held hearings on the 1995 farm bill, and you don't get five farmers in one room to agree. You're not going to get five friends to agree. It changes continuously.

Mr. WILLIAMS. Mr. Jensen, what do you think?

Mr. JENSEN. I certainly think it's possible to get closer, but it's even difficult to get—between States and between Provinces to get exactly the same. I think we got to do our very best to work on it and get as close as we can in all of those situations.

But in answer to Mr. Urton, we don't intend to grow any more feed grain. We're going to grow all No. 1 wheat from now on.

Mr. WILLIAMS. Mr. Karst.

Mr. KARST. Well, a couple of points. First of all, in regard to—as far as our chemical licensing, I can give a quick summary of what happened to me last year. I grew canola for a Canadian company and an American company. The premium chemical we like to use was a chemical called Fargo, which was legal for us to use on canola going to Canada but not legal for us on the canola produced for the American company, even though the canola we shipped to Canada was only crushed and shipped right back to the United States.

So I think the amount of money it takes to license chemicals in the United States is extremely high. We're extremely limited anymore in those views and sometimes research done within the country can be transferred to the other country to keep the field level there.

The second point is in regard to set-asides. I think it will be especially galling to the American producers if we're faced with 10 percent or 15 percent set-aside as suggested for this year's wheat producers, and so we have to take that much land out of production and find alternative crops for the same time rather than exporting hay and grain.

Our set-aside requirements have to be uniform, something to—for uniform trade in that area as well.

Mr. WILLIAMS. Thank you, Mr. Chairman.

Mr. JOHNSON. I want to thank the members of this panel here, you were very helpful to the subcommittee. And we will be getting back to cogitating on this with some more respect in Washington.

In order to move along and get facts down in the time relevant, I welcome the second panel at this point. And that panel is composed of Mr. David Davison, chairman of the grains committee of the Montana Farm Bureau; also, Mr. Jonathan Schlueter, who is a representative of the Montana Grain Elevator Association, Pacific Northwest Grain and Feed Association, Portland, Oregon; and Mr. Chuck Merja is former president of the Montana Grain Growers Association in Sun River, Montana.

So if the gentlemen will join us.

Mr. WILLIAMS. Mr. Chairman, forgive me while the next panel is coming forward. At the risk of missing someone, I see three people out there that I'd like to introduce you and Mr. Peterson to, and maybe some folks here don't know them.

We have the State director of the department of agriculture with us, Mr. Leo Giacometto.

Leo, stand up so we can recognize you. Thanks for being here.

We have the Director, Mr. Chairman, of the State ASCS, Bruce Nelson. Bruce and the new Director, also, of Farmers Home Administration, Tony Preite.

I believe you have about five other very important people here, I know, but nonetheless——

Mr. JOHNSON. The subcommittee welcomes you all and, in the case of farmers alone, congratulations or condolences, or whichever is appropriate.

But we will move to testimony from the second panel. And, again, we'll follow the same ground rules, where if you're more comfortable reading or testifying, or in your words. Take your choice. But we will try to follow the 5-minute rule and, then, on conclusion of all three of you, we will come back and take questions you might have.

And so, Mr. Davison, why don't you go ahead and proceed. And your full statement is received for the record, so you may summarize about whatever you're most comfortable with.

## STATEMENT OF DAVID A. DAVISON, MEMBER, BOARD OF DIRECTORS, MONTANA FARM BUREAU FEDERATION

Mr. DAVISON. Since it is a complex issue, I'll read most of it.

Mr. Chairman and members of the subcommittee.

First of all, I wanted to thank you for allowing us to testify at this hearing. I represent the Montana Farm Bureau Federation. I'm the district director. And it gives us an opportunity to let you hear about the policies that are made by our 5,000-member families.

In my testimony I'll address the seven questions you posed to the Montana Farm Bureau. Before I do that, I wanted to make one point, and I'll read this.

The problem is not the movement of Canadian grain into U.S. domestic markets, but rather a problem of depressed world wheat prices resulting from lack of progress in reducing export subsidies through GATT negotiations. This is not to diminish the problems

caused by predatory pricing by the Canadian Wheat Board, but I believe the answers to the questions posed will validate this point.

It is imperative that you consider that since there has been no meaningful progress in the GATT. It is a very poor time to be cutting farm income by reducing payment acres, especially with acreage set-aside programs which reduce the number of acres a farmer can get returns from, and then reducing the number of program payment acres, and the usual reduction of payment rate.

In the current international climate, reducing U.S. productions simply opens the door for more imports from Canada and reduces our ability to retain international exported market shares.

With the questions that you asked, the first one to the Farm Bureau was imports of grain, such as barley and Spring wheat, are they increasing and why? Is more being imported than reported to the USDA? And, how are these imports affecting U.S. producers?

Canada shipped 6 million bushels of Durum to the United States in 1986, and 14 million bushels of Durum in 1990. Durum and Hard Red Spring wheat shipments increased from 15 million in 1986 to 25 million bushels this year.

To put this in perspective, in 1986 Durum imports amounted to 12 percent of domestic use, whereas in 1990 imports equaled 20 percent of domestic use.

Extensive use of export subsidies by the EC and U.S. have depressed world wheat prices to levels that are substantially below U.S. domestic prices. The Canadian Wheat Board can net $20 to $25 per ton more by selling wheat into the United States than they can by selling into the depressed world market. Lack of pricing transparency allows the Canadian Wheat Board to have standing pricing orders that are slightly below U.S. offers. The U.S. domestic millers claim that Canada is not underbidding domestic sellers but, rather, they simply are willing to sell at almost any U.S. bid.

The second question, Canadian Durum imports, within the legal confines of United States/Canadian Free Trade Agreement, how can the issue of Canadian Durum import surges be alleviated?

The Montana Farm Bureau Federation wholeheartedly agrees with Senator Dorgan's concern about the rapid increase in Durum imports from Canada in recent years. We also agree with his proposal to require immediate negotiations with Canada regarding price transparency, rail transportation subsidies, and the acquisition price of grain as called for in the United States/Canadian Free-Trade Agreement.

The third question, area grain—time has gone rather fast.

Mr. JOHNSON. I don't want to cut you off, but feel free to pick a couple of the points that you'd like to focus on primarily. The seven issues were more or less suggesting things that you might want to talk about, was not intended to corner you on all seven, but you may want to focus on a couple that you think are primarily a concern to you.

Mr. DAVISON. I wanted to emphasize a little bit on the end-use certificate requirements.

I just want to state that Farm Bureau supports adoption by the United States of end-use certificates on the same commodities for which such certificates are required by Canada, mainly wheat and barley. And we are concerned about the implication of requiring

end-use certificates on other public commodities, thinking that possibly they'll be putting end-use certificates on more of the commodities exported from the United States into Canada.

I'll just read the statement on the Export Enhancement Program.

Farm Bureau's policy is to support the use of Export Enhancement Program for all commodities in all markets where they face unfair foreign competition. Therefore, we support the use of EEP for wheat in markets where we have lost sales to subsidized competition from Canada.

I thank you for the opportunity and I'll close.

[The prepared statement of Mr. Davison appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, and we'll come back for some questions and comments.

Next, Mr. Schlueter.

## STATEMENT OF JONATHAN F. SCHLUETER, EXECUTIVE VICE PRESIDENT, PACIFIC NORTHWEST GRAIN AND FEED ASSOCIATION, ALSO ON BEHALF OF THE MONTANA GRAIN ELEVATOR ASSOCIATION

Mr. SCHLUETER. Thank you Chairman Johnson, Mr. Williams, members of the committee. My name is John Schlueter; I'm executive vice president of Pacific Northwest Grain and Feed Association, a nonprofit regional trade organization, headquartered in Portland, Oregon, which represents 225 of the commercial grain warehousing companies, animal feed mills, flour milling operations, seed processors, the grain export shipping facilities operating here in Montana as well as in the States of Idaho, Oregon, and Washington.

I'm testifying here today also on behalf of the Montana Grain Elevator Association representing some of the same companies in this big sky State.

I, too, will summarize the testimony that I provided to the committee in writing. To do so, I would state that the Pacific Northwest Grain and Feed Association and the Montana Grain Elevator Association are supportive of the North American Free-Trade Agreement. We support the concept of free trade among nations and we recognize the NAFTA agreement and the American and Canadian Free-Trade Agreements have facilitated between our two partners.

Our countries enjoy the greatest trading relationship of any two neighboring countries in this world. And contrary to some of the testimony that's been presented here already today, the United States enjoys a positive agricultural trade balance with Canada, equal to about $1.3 billion annually. And that although here in Montana the advantages of the free-trade agreement in a resource rich State such as this, where the exports are of coal, wheat, cattle, and timber products, don't have much impact in the North.

We, too, in the State of Montana enjoy a positive trade balance with Canada, equal to about $144 million annually, last year, and agriculture is among the top eight commodity sectors leading the way.

Unlike some of the groups that have also testified here today, the Pacific Northwest Grain and Feed Association and the Montana

Grain Elevator Association oppose the concept and proposal for end-use certificates, as has already been discussed. We view end-use certificates as thinly veiled efforts to try to reimpose some of the trade barriers that are coming down daily in our countries in other parts of this world. We view them as hindrances to grain flow.

We don't think it will succeed in any of the importation of Canadian grain as proponents would advocate. I think, instead, that it is a retaliatory effort in—if not in the language, then certainly in the spirit of free-trade agreements end-use certificates do violate what we're trying to accomplish in the stated policy objectives of national leadership in both countries. We view end-use certificates, therefore, as an incumbrance.

I would close my remarks by focussing on some of the problems of the grain elevator industry of this State which is down from 174 commercial warehousing facilities operating in 1985 to 97 commercial grain warehousing facilities operating in this State in 1992. We have dropped 45 percent of the licensed grain companies operating in this State in a 7-year period, largely because of 1985 farm bill, the provision that took a large amount of acres, 25 percent of service areas in many counties, out of production, did not allow us the same support levels and support payments that the farmers produced and the farmers enjoy.

As far as State-licensed public warehouses, I should also point out to the committee that we have a legal responsibility in this State to hear and receive all deposits of grain without discrimination. Chapter 80–4–523 of Montana's State law specifies that, "A warehouseman shall receive for storage, conditioning, handling or shipment without discrimination of any kind, so far as the capacity of his warehouse will permit, all agricultural commodities tendered him in the usual course of business in suitable condition for storage."

The point is this, we have a legal responsibility under State laws of the State of Montana to govern the industry. We have a financial responsibility to the patrons and to the stockholders of the grain companies that own these firms. We have a sociopolitical responsibility to the grain trade of our two countries, and to the economies of our two countries to facilitate trade. And we work to export free trade among nations.

We are very good at exporting grain to five Continents across the globe, and we feed consumers in a hungry world. But 95 percent of the mouths to feed on this globe are outside of this country.

And I'd like to part with one last comment about the exporters, because there's been some suggestion that grain coming in from Canada ends up going west to be exported.

We handle 35 percent of all of the wheat that's exported from the United States off the northwest coast, the Columbia River mouth, for all intents and purposes. We also handle 20 percent of the feed grain exports off that coast. The reason the Canadian grain is going off, is it will go off the northwest coast in export channels and commercial trains. The cash markets that were referenced previously, Japan, Korea, Taiwan, it will not go out under subsidy repercussions.

The legal consequences of discovering foreign agricultural service, the Office of Inspector General, other regulatory agencies that are in place and overseeing that industry on a daily basis, know that the grain company found to be violating the exportation of Canadian grain under U.S. subsidy stands to not only lose the subsidy on that sale, not only forfeit the performance bond that is posted on that transaction, but also stand to be blacklisted by the USDA in participation of other export bonus programs for a period of 3 years after that violation is noted. And the management representatives of those companies stand to do jail time if they are found to be violating these requirements.

The long and short of it is exporters in the grain industry in the United States and Canada are alike, are very careful to make sure that grain coming into this country from Canada does not end up going out from this country under export subsidy.

Thank you very much for letting us represent these views.

[The prepared statement of Mr. Schlueter appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Schlueter.

Mr. Merja.

## STATEMENT OF CHARLES L. MERJA, PAST PRESIDENT, MONTANA GRAIN GROWERS ASSOCIATION

Mr. MERJA. Thank you very much. I would just like to follow up on a couple topics, before I give the prepared testimony, that Mr. Schlueter mentioned.

He said, members of the Elevator Association are supposed to take, without discrimination, all grain offered to them. And people in his organization have signed contracts for wheat to be delivered from U.S. farmers this year and they called those farmers and said, "Why don't you folks stay home because we're making too much money on Canadian grain."

Second, he spent a lot of time telling you how the grain trade is going to be very careful about making sure that no grain makes it into EEP channels, but they oppose end-use certificates. It would seem to me they would support end-use certificates so they could have confirmation, the Government-controlled confirmation that none of that imported wheat made it into export channels.

Anyway, thank you for letting me participate. Thank you for coming to Montana. My name is Chuck Merja and I farm with two brothers and my father west of town, about 25 miles. I'm immediate past president of the Montana Grain Growers Association, a producer organization with about 3,000 members.

I think it's important that I point out that we've worked very hard as an association to support GATT and support NAFTA as well as maintain fast-track authority for both of those. We did so because we believe that trade is important to the survival of our industry, as well as the continued shrinking of the world through interactions brought about by trade.

In fact, we endured significant cuts to commodity programs on the promise of tough trade negotiations that would help open markets and create a level playing field. In fact, those cuts were premature in that they provided no incentive to our competitors to get serious about trade negotiations. Instead, they provided strong in-

centives for our competitors to use whatever stall tactics were needed while waiting for our Government to further cut domestic programs. That tactic worked very well as we are currently watching both the House and Senate Ag Committees debate how they're further going to cut our ag supports.

When will you come to understand that all of our competitors are sitting around knowing that they don't have to bother to negotiate, all they have to do is watch Congress and the administration unilaterally disarm American agriculture.

I'm on this diatribe because even though we supported GATT and NAFTA, we sent a letter to Ambassador Hills in the summer of 1992 expressing some specific concerns we had about the Canadian Free-Trade Agreement and asked that they be entered in the soon-to-be-completed NAFTA. Specifically, we requested that Canadian price transparency and rail subsidies be addressed so as to fix some of the problems we had experienced with the Canadian Free-Trade Agreement.

I enclose a copy of the reply that we got well after the negotiations were announced as having been successfully completed. The fourth paragraph of that letter says, in part, "We were unable to further address the issues of Canadian price transparency and Canadian rail subsidies. Canada simply refused to move on these issues."

The man that wrote these words was and is the Deputy United States Trade Representative. He's supposed to be protecting our interests and he capitulated to a "Refusal to negotiate."

Now, I'm not a world-class negotiator, but I darn well know what it means when one side in the negotiation simply refuses to negotiate on an issue. It means they think they got a heck of good deal in the last go round and they're not going to give up anything this time.

No one told us that free trade meant we were just going to give away markets for free. The field is not level between Canada and the United States. I say that and, in the same breath, I say that we are missing the target by pointing at the Canadians. My testimony today is not Canada-friendly, yet I agree with previous panel people who said we need to come together. I agree with that. We need to be pointing across the Atlantic.

But U.S. farmers are competing against farmers whose Government subsidizes freight, and is looking at ways to extend those freight subsidies into the United States; whose selling pool goes into our markets that we have developed and gives standing offers under any U.S. price quote; whose selling pool doesn't have to profit on each sale and thereby can gain easy entry into the best United States or international markets where our farmers or private companies cannot venture, by using price, quality, or delivery terms as enticements. We are literally giving away our industry to allow this to happen.

A couple closing points. First and foremost, Congress and the administration need to send a strong message to our farmers and our competitors. We will no longer unilaterally disarm. We will allow our producers to produce and use all the tools available, plus any others that we need to see to it that what our farmers produce will be sold.

One of the effects of large amounts of Canadian grain coming across the border is that—and there's a chart in here showing the increases, if we indeed import 72 million bushels of Canadian grain this year without a commensurate increase in U.S. sales, we will build U.S. stocks significantly.

USDA currently projects U.S. stocks to go up by 28.9 percent while the EC will go down 11.4 percent, and Canada will go down 16.4 percent. Price elasticity estimates that we've gotten indicate that wheat price moves 12 to 25 cents per 100 million bushel change of ending stocks. Using 15 cents and 1.5 billion program bushels, we could see lost revenue and increased deficiency payments to producers on the order of $225 million a year, or $1.125 billion over 5 years.

The things that we need to do to fix this situation, in my opinion, are we need Canadian price transparency; we need transportation subsidies, administrative costs of the Canadian Wheat Board and all other subsidies of the Canadian Wheat Board included in the calculation of the acquisition price; and end-use certificates must be utilized.

End-use certificates are not the sole answer. If you leave here today thinking that they are the sole answer, we will have been doing this for nothing and we will not have solved the problem.

We must be allowed to use EEP and other tools, if necessary, to Mexico, Indonesia, Venezuela, and/or other places where the Canadian Wheat Board has made aggressive advances.

American producers must be given access to Canadian markets. Speedier trade dispute resolution must be put in place. And again, extreme care must be taken with rewriting the USDA budget. Don't be counter-productive to our trade posture.

Thank you very much.

[The prepared statement of Mr. Merja appears at the conclusion of hearing.]

Mr. JOHNSON. Thank you. I would just interject at this particular time that the subcommittee has received a letter with supportive material from the Canadian Embassy stating, "The Canadian Wheat Board has forwarded to the Government your invitation to appear before the Subcommittee on General Farm Commodities on June 11 in Great Falls, Montana. As a matter of practice, Federal officials do not testify in front of U.S. House or Senate committees. Nevertheless, on behalf of the Government of Canada." The Ambassador submits "Attached information on bilateral trade in grain and grain products between Canada and the United States to be included as part of the record of the hearing."

We do, without objection, receive this as part of the record.

[The material appears at the conclusion of the hearing.]

Mr. JOHNSON. Mr. Davison, given the level of impression of Canada and Canadian imports into the United States, this subcommittee had to wrestle the issue of ARP's versus flex acres in the most recent reconciliation bill.

Would you prefer flex acres versus an increase in ARP acres in terms of farm policy in our country?

Mr. DAVISON. Yes, we do—I believe we prefer flex acres.

I believe it's our policy to encourage production and the ARP program seems to stifle production more so than flex. Flex actually enhances it, I believe. We prefer flex.

Mr. JOHNSON. Given some of the complications we had with the Canadian Free-Trade Agreement that has been testified to, or at least the testimony to that nature, are you comfortable that we can go on from here to a North American Free-Trade Agreement and avoid some of those kinds of complications in that larger agreement?

Mr. DAVISON. I hope that possibly we've learned in this free-trade agreement with Canada some of the things that we need to address in the North American Free-Trade Agreement. I feel positive that we can come to an agreement and we support the North American Free-Trade Agreement.

But we need to eliminate some of the inequities. And I know that's a real challenge, and a complex challenge, but if we can eliminate most of the inequities, then I believe that we can have an effective North American Free-Trade Agreement.

Mr. JOHNSON. Mr. Schlueter, I appreciate your testimony in your respective—on the case of end-use certificates. If we do not have satisfactory GATT negotiations concluded, and there's some sign that maybe things are picking up again, but if nothing is reached in the foreseeable future, would you be opposed to a United States end-use certificate if it were simply a mirror of the Canadian process? If there is, in fact, no mincing of the Canadian agreement, as there are criminal penalties as you said, if there is no mincing, then what is the objection to a United States end-use certificate with no agreement?

Mr. SCHLUETER. Mr. Chairman, just in the last year the Canadian Government, the Wheat Board there, has indicated their willingness to drop the end-use certificates that they have imposed on the United States and other origins. And we view that as a very positive sign.

They're concerned about your attention to this issue in our country, and they realize that they are out of step. And that our reasons for opposing end-use certificates is that, really, in stating some of the barriers or restrictions that encumber the trades, it doesn't stop it, it doesn't seem to slow it down; it imposes one more piece of paperwork for grain companies to complete and fill out.

We are very good at filling out paper to conduct our trades. This will not stop that. It will merely encumber trades. It is on that basis we oppose it. If not in the spirit, if not if the language of the free-trade agreement, and Ambassador Kent does believe it violates the language of the free-trade agreement, virtually the spirit of the free-trade agreement and facilitating trade between nations, and we now view it as the wrong way to go.

Mr. JOHNSON. Given the fact we spent millions on EEP subsidies each year and we do subsidize exports the way Canada does not, would you elaborate just very briefly on the current mechanism for giving some assurance on how this is policed currently?

Mr. SCHLUETER. It's policed by the industry in the following way: The Canadian sellers of grain impose a restriction upon the buyers, that the buyer guarantees that the grain that they are importing is bound for domestic utilization, either feed or domestic flour mill-

ing. In turn, the grain marketers in this country require of their sellers, be it Canadian, an in-country origin station, a country elevator in Montana—for example, the country station for seller guarantees U.S. origin for the grain that is being sold and intended for export destinations.

Mr. JOHNSON. But without a certificate or anything of that nature, how does anyone really know?

Mr. SCHLUETER. The OIG, Foreign Agricultural Service, a number of other agencies routinely audit and examine the books of the grain exporters over on the coast. I'm aware of four or five of those audits in the 10 years that I've been in this industry and, to my knowledge, nobody has ever brought charges, allegations, repercussions. There haven't been any crimes.

Mr. JOHNSON. My time has expired. And I appreciate your answer, given the timeframe that I gave you to do that. And, in order to expedite things, I will recognize the gentleman from Minnesota.

Mr. PETERSON. Just as the chairman, to follow up on your question, the auditors, as I understand it, as long as you don't have more Canadian grain than what you have in your total stock, then you're OK, and they totally ignore the fact that you're displacing American grain. I mean, it's a case of figures lie, liars figure.

Mr. Davison, you were talking that you thought that we can negotiate an agreement with NAFTA if we learn from the problems of the Canadian agreement. I think we all need to understand that what these trade agreements are about are about opening up the market of financial services, telecommunications, for credit cards.

And agriculture is an impediment. We are a problem. We are something just basically to get out of the way. And that's why we always get in trouble with these agreements.

In this case, when we try to get them to address these issues Mr. Merja talked about, they stonewalled us again. When it was a problem with autos and other big industries, they opened those up in NAFTA.

I had a hearing in my subcommittee looking at employment issues, showing how much trust you can have in this. When they were negotiating the NAFTA, they basically gave away the glass industry in this country, some of our highest paying jobs, and we are going to lose the entire industry to Mexico, to one of President Salena's buddies who gave him $25 million at this fund-raiser they just had.

And you know why? Because President—the guy testified in my committee that President Bush, the orders were that they needed this agreement Tuesday morning in the Republican Convention. The Mexicans knew this and their negotiator sat at the table and we gave the industry away. $30-an-hour jobs.

The sugar situation. We basically are going to underline the sugar problems. If you let this agreement go through, because the sugar company has been unable to give this subcommittee a way for the sugar program and try to do away with it in the NAFTA.

I mean, we got all these other forces going on, so I'm very skeptical. And it's the reason why I'm opposing the NAFTA, because I think there's all kinds of holes in this agreement. And I think we have to be real careful about what we're doing because we get

burned once is one thing, but if we get burned twice, we better have our head examined.

I personally—probably this is not a question, but I think it's a mistake for us to put agriculture and energy into the free-trade arena at all. I think those are national security assets of this country. We ought to recognize them as such. And it's foolish for us to be putting them on the world market. I really fundamentally believe that. I guess I'm a protectionist.

I think we're just kidding ourselves. And one of the reasons that Europe won't agree to the GATT is because they've gone hungry in that country and they know what it's like when they can't produce foods to feed their people. We don't understand that in this country. People cannot survive on $2.50 wheat.

You know, if we keep on this track, we're not going to produce any agricultural products in this country, we'll have somebody else ship them in to us. And then where are we going to be?

So I appreciate all of your testimony. I think that there was good testimony and raised some good points. And I guess I've been round and round with Mr. Schlueter's people in Washington. We don't agree on a lot of things.

I have one question. We just went through this thing in Minnesota. I don't know who can answer this, but the State legislature asked the Canadians at least if they're going to bring their grain and our elevator is going to buy it, that they pay the 2-cent check-off. And then the Governor vetoed it ostensibly because your folks asked him to.

I don't know if that's true or not. But, anyway, did anything like that happened in Montana? Did they vote to check-off out here in the legislature?

Mr. MERJA. Our Governor signed it.

Mr. PETERSON. You did?

Mr. MERJA. We should have our Governor talk to your Governor.

Mr. PETERSON. I like the law that all the grain has to be purchased no matter where it's from. Couldn't that be changed in the legislature, or wasn't that addressed? Mr. Schlueter testified that the elevator has to buy all the grain. Couldn't the State legislature change the State law and say they don't have to buy Canadian grain?

Mr. SCHLUETER. That wasn't addressed in the 1993 session of the legislature.

Mr. PETERSON. Maybe it should have been.

Mr. SCHLUETER. I am aware in 1992 the attorney general's ruling in the State of North Dakota, which reversed the attorney general's earlier interpretation that grain elevators could not discriminate against the Canadian depositors. He later overturned that and ruled that yes, they can discriminate against the producers if it doesn't serve their local needs or local interests.

So in the State of North Dakota the grain elevator there, the in-State law, there is a proviso for domestically produced grain. We don't have that option in this State.

Mr. PETERSON. Thank you. Thank you all. We appreciate it.

Mr. JOHNSON. Mr. Williams.

Mr. WILLIAMS. Thank you. I want to thank all of you for coming as well. I'm going to shorten up a couple of questions I will ask so

we can hear perhaps from a few more people in the crowd, Mr. Chairman, before you both have to get on the plane and head for North Dakota.

Mr. Schlueter, I appreciate your comments concerning your support and the company's support for the spirit and facilitation we spend in markets and free trade, fair trade. Mr. Merja asked for Canadian transparency. Would that help facilitate freer and fair trade in your view and the view of your company?

Mr. SCHLUETER. There is some support for that industry, yes.

Mr. WILLIAMS. Mr. Merja, what do you mean by additional Canadian transparency? You and I talked about it and I think I know what you mean. I just want them to hear, Chuck, the subcommittee members, I want them to hear you say it.

Mr. MERJA. Well, the business of the Canadian Wheat Board is right now only the business of the Canadian Wheat Board and we can't even come to you—to this committee—and say the Canadians are doing this or that, because we can't find out what they're doing. We need some independent panel that can help track prices and quantities of grains so that we can find out if the Canadians are obeying free trade with us or not.

If I can just expand a little bit. There are guys in his association that are significantly hurt by what the Canadian Wheat Board is doing. And the Canadian Wheat Board, by doing that, is not doing their producers any favors either.

Mr. WILLIAMS. Finally, Mr. Chairman, I found it interesting, not just surprising, but an interesting thing here today and that is all the group associations came before us, similar to ones that come before us in Washington, individual farmers came before us, including those from our friends across the border, have all said, one way or another, that parts of the trade agreement do not benefit, in fact, hurt individual farmers.

None of the farmers or their association that have come here today have thought that individual farmers are benefiting by the trade agreement, only the grain company supports the trade agreement.

I think I know what to make of that. I don't know what to say of it because I want to be careful with my words and I don't want to have accusations. But it is a fact, and we find it in Washington as well, more and more farmers and their associations are peeling off of support for past trade agreements, are beginning to be very cautious about future trade agreements. And, in the meantime, companies are pushing down the accelerator to move ever more quickly to get the agreements.

Now, that gives everyone pause and concern. And I think it is something unique that has entered this matter, that neither the Congress nor the President should ignore.

Again, including the Farm Bureau, we're very appreciative of you all for coming by and spending time with the subcommittee.

Mr. JOHNSON. I thank the members of this panel. I think it's very helpful in having this hearing in this State. It has contributed to our decisions and understanding of the issues.

We have a relatively short amount of time, very short amount of time left, and I apologize for that, and the airline schedules and whatever. But I want to try to get in a bit of these—at least some

comments from individuals who are not on the panels but have something to say. And we have a sign-up sheet with people to follow-up on.

And I'm going to ask you to try to keep your comments to 2 minutes, which I know is really too short. But we'll have to follow a 2-minute rule, otherwise we just can't do it at all.

In the order of the sign-up sheet, I ask Mr. Conrad Johnson if you have some remarks to share with us and anything that you would further elaborate that you put in writing we will certainly receive in the record as well.

## STATEMENT OF CONRAD L. JOHNSON, FARMER, BRACKEN, SASKATCHEWAN, CANADA

Mr. C. JOHNSON. Given the purpose of this meeting, what I'm going to say will mean some good news and bad news. The good news is I was born in Havre, and graduated from Montana State University. The bad news is I'm a Canadian grain farmer and have been for quite a while.

First, we should reflect a little bit on what the Canadian Wheat Board is and how it works. First, you have to realize it's a total monopoly. In a perfect world, having a great system, that should be a perfect system to market our grain. But, as we all know, humans sometimes screw up perfect things.

It's gone to us as producers and covered us with a security blanket and made us an industry of very poor marketers. We don't ask enough tough questions; we don't understand what's going on.

I want you to realize, too, the vast majority of grain that comes down here was Canadian Wheat Board grain, it wasn't from individual producers. If you think it's tough for Americans to haul grain up there, try, as an individual producer, to haul it down here.

One reason they can sell so competitively into the northern United States with trucking programs is because they can use their accredited exporters. We, as producers, will give those accredited exporters approximately a 64-cent-per-bushel basis right out of our pockets to play with before the grain even leaves the Canadian elevator.

As an example, say I have a semiload of grain that I myself produce, haul it to a local company, sell it. I drive it around, I go in to pick up my check. The handling charge the grain company will charge to take my grain upstairs, that's 22 cents a bushel. Because it's all Canadian grain, that's shipped and in export position, it's supposed to be clean, and I pay 7 cents a bushel for that. It isn't clean, because it's coming down here. But to keep everything fair, I pay it.

All Canadian grain going to export position I pay 35 cents a bushel freight on that. It doesn't go to the coast. But to keep everything fair, I pay it. So they have a cushion to play with.

Moving on to trade. Both countries came to the trade table with our suitcases of sins. While we should have mutual interests and goals, it seems like an action-reaction scenario seems to prevail. We can't lose sight of the goal to get the Europeans out of the export subsidy business. The time seems right to put a little pressure on them. Germany is running out of money, France is bending on some issue. Can't we, as neighbors, get together, form some mutual

ideas, goals, go forth arm in arm instead of standing, one behind the other, and taking turns kicking each other in the butt?

I recently attended the Canadian International Grains Institute Conference. That puts Canadians and Americans together, sits them down to learn about each others' system. The House and Senate Ag Committees were represented there. First day, a lot of animosity. By the second day we were getting together. By the third day, it was good.

Dina Butcher, executive director of North Dakota Grain Growers, like what was here today, she wrote her presentation three times, and it got a little easier at the table all the time.

We met with Ag Minister Charlie Mayer. The first issue that came up, end-user certificates. America pushed them. He stated that if it's a problem, give it up. He said, "We don't need them."

If you asked that same position to the Canadian Wheat Board 1,000 times, they said, "You have to have them." Charlie said no problem.

From an American producer's perspective on the wheat program, probably seems like a good deal. Your Government stood up and protected the producers, took on the Europeans and protected the export markets.

As a Canadian, that program has totally devastated our industry. The U.S. EEP's market, the reaction to it, more Canadian farmers go broke.

EEP in Mexico doesn't do a thing to the board. They're going to retain their market share, but they're going to take it out of our pockets. There's no winners in this scenario. Head-to-head battles with the Wheat Board just results in more Canadian farmers going broke.

With the changes to the European program, with no other functional support program in Saskatchewan, my return for last year's crop is going to be $1.60 U.S. per bushel. How many U.S. producers can survive on that? How many will put up with it? Please, don't force it lower.

It's getting to be more and more pressure and political will to make changes into the board's policies. The continental barley market and changing the method of payment for the Crow benefit are examples of that.

Please use political pressure and not head-to-head battles when challenging the board. If there are screw-ups, and they say there aren't, get them out in the open, prove them, document it, take them to the Canadian Grains Council, the Minister's office or one of the MLA's.

To be fair, we have to give the board credit for trying to do a job in a heavily subsidized export market. It can't be easy.

In closing, and I've overrun, but, as neighbors, can't we sit down in some form of producer-based group and work out our differences? There's a lot of us that aren't proud of some of the actions of the Canadian Wheat Board, and I hope that many of you realize the effect EEP has on industry. Continuing actions based directly at the board, it's going to result in total collapse of our Canadian grain industry. Who's the winner then?

I believe we cut a much wider swath if we link arms and go in arm and arm together instead of fighting each other.

[The prepared statement of Mr. C. Johnson appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Johnson.

Mr. Condute, I'm going to be more rigorous about our 2-minute rule.

**STATEMENT OF MR. CONDUTE, PRODUCER, ROSCOE, MT**

Mr. CONDUTE. Thank you, Pat, for coming out here to Montana. I'm from Roscoe, Montana, and they haul a lot of wheat to Wolf Point, and lot of wheat coming out of Canada to Wolf Point. And they blend that wheat right into the American wheat right through the elevator.

When that wheat goes into the train, it goes right to the ship. When that wheat gets into that ship and goes out over the ocean, you could pretty much bet your bottom dollar that it is EEP wheat and the grain trade is getting payment from the Government on that wheat.

Wheat in Wolf Point last week, 12 protein wheat in Wolf Point was $2.36 a bushel. Our farm program we got right now was put in in 1977 by the Chicago Board of Trade. I got a statement from the president of the Chicago Board of Trade, made that statement he wanted this program, and this program we got was put in by the Chicago Board of Trade.

One of the things that I think would be good for the Agriculture Committee to do is to investigate the Department of Agriculture. I don't believe the Department of Agriculture has really been investigated, and there's got to be moneys down there that just will never quit because you got about $60 billion of welfare money that goes to all the welfare, to the schools, to the forest, and all the other organizations. And that would be a good place to investigate.

I believe that the grain trade really runs the Department of Agriculture and that's what our problem is. I think I'm done.

Mr. JOHNSON. I appreciate your comments. And those people like to do a lot of things besides investigate USDA, too, but we will pursue it.

Mr. CONDUTE. But that grain was shipped out of Wolf Point and I believe it was apparent, because they talked with the guys who run the elevator there, and it's pretty obvious what's happening in Wolf Point. Thank you.

Mr. JOHNSON. Thank you.

Mr. Keith Bensen.

**STATEMENT OF KEITH L. BENSEN, COMMISSIONER, BLAINE COUNTY, MT**

Mr. BENSEN. Thank you. One thing about it—I'll be under 2 minutes, because mine is short and sweet. I'm here to ask for money to repair the roads that the Canadian wheat has come over, if there's any way we can get money for the people of Blaine County. Our roads were literally destroyed by the trucks hauling over them. Thank you.

Mr. JOHNSON. Those are your county roads you're talking about? All right. Good point. When we take up the overall level of funding from the Transportation Act—take into consideration the impact the trade has on roads, especially local roads.

Mr. George Paul.

**STATEMENT OF GEORGE V. PAUL, EXECUTIVE DIRECTOR, MONTANA FARMERS UNION**

Mr. PAUL. Thank you, Mr. Chairman, members of the subcommittee.

With the 2-minute rule, I'll speak 1 for every 20 words.

First, I want to say thank you very much to Congressmen Williams for using your newly found seat on the committee to bring these gentleman to Montana. We appreciate it very much.

Montana Farmers Union has been a long-time opponent of the free-trade agreements. Generally, we don't apologize for that. We believe in trade, but we don't believe in these free-trade agreements. Very simply, referring to something that Congressman Williams brought up a couple minutes ago, the agreements don't serve producers.

The men and women that are trying to make a living out there on the lands are not served one iota by these free-trade agreements. Who they do serve are the multinational companies, the food processors, and the grain merchandisers. If I worked for them, I would certainly be a strong advocate for the agreements, because they are the winners in this. But I don't represent them, so I let them speak for themselves.

The real problem and the frustration Mr. Johnson had just talked about, and many others here is this, the American farmer, the success of profitability of the American farmer has never, in our history, had to rely upon Canada, for God sake, as a market for our product. Nor has the Canadian farmer needed the American people to serve as a marketplace for their products. And yet, when we start to complain about the problems with all the Canadian grain coming down, and as much to our embarrassment, our first response is, "It's unfair. We got to figure out how to send our grain up north."

We need to slow down this whole process and stop and ask that question, do we really need to send our product north and do we need to waste time trying to figure out how to do it?

Again, our marketplace has been the world, not Canada.

And one quick remark about NAFTA, and I appreciate your non-NAFTA coalition or caucus. And that is this, together, the U.S. producer and Canadian producer certainly recognize that Mexico could be a market. They don't produce down there. We're the production machine, they're the consumption machine. There is some potential in Mexico.

We see it as a market potential. Those multinational companies see it as an opportunity for deregulation. That's all the community is to them. They get to go down and circumvent all of the rules that the American people, consumers and producers alike, have put in place the last two or three decades in this country. They get to go down to Mexico and play, circumvent those rules and, again, there's no reasoning there for the people in this country. And that's why we think this whole market gets a little confused and extremely frustrated.

Get back to the question, do we really need Canada as a market for grains? And do they need the United States as a market for grains? The answer to that clearly is no in both cases.

Thank you for your time and, again, thank you for being here.

Mr. JOHNSON. It's only in rural America that you have to fly to Minneapolis to go to Fargo, and that's what we are up against here, and we need to not miss this flight. But I do want to get in two more people whose names are on there, Mrs. Sharon Norman in a follow-up to her panel.

Mrs. NORMAN. I want to submit a written statement from Jack Greenwood. I will quote from a grain farmer, Wolf Point, Montana, on January 19, 1993.

"I signed a contract with the local General Mills with an elevator to deliver 10,000 bushels of grain. I was allowed to haul some of it and was then told I couldn't haul it, that they were loading a train of Canadian grain. I was then allowed to haul a little more, but was again told to quit hauling. When it was determined that I had high protein in my wheat, I was told I could haul—those with low protein would not be allowed to haul until the Canadian grain was loaded. The loading of Canadian grain has also created a shortage of cars. Some local farmers wait 3 or 4 weeks, with contracts, and get no badly needed operating money."

This man had to borrow money to pay his income tax.

Thank you.

Mr. JOHNSON. Thank you. And one last individual would be Mr. Art Arnold.

## STATEMENT OF ARTHUR A. ARNOLD, COMMISSIONER, RAVALLI COUNTY, MT

Mr. ARNOLD. Thank you very much. I'm Art Arnold, Ravalli County Commissioner. I'm also a farmer, northeast Glasgow area. I also hear a lot of concerns of the people about the Canadian grain coming into the Wolf Point area. We have lost one of our railroad lines from the Skalkaho to the road lane area. We understand from the other day that this is being put up for salvage right now.

The reason we lost this railroad line is part of the use of the agricultural program set-aside itself the number of bushels were down, complicated with the drought. Now, all of us were being hit on our road system, with heavy trucks, heavier trucks than are permitted, I understand, than our local trucks can haul. And this is also a concern for the county, "How are we going to maintain these roads with heavy grain traffic?"

When grain comes out from the CRP, or gets back into the production, the CRP acres, we're going to have an awful strain on the road system.

I have maybe one thing to offer. Beyond a free-trade agreement, when people try to sit down and figure out the trade against one another, my thoughts are that I'd like to see a possibility to the Americans and Canadians sitting down together and trying to figure out how to set a stable price for our product. This is what farmers are going to have to survive on and I think it's good for America, I think it's good for Canada, and I think it would stabilize the price of grain in the world market.

And I really want to thank you for this opportunity.

Mr. JOHNSON. I probably just want to ask you, Mr. Commissioner, because I think your circumstances are a little different in Montana than they are in South Dakota. We get Canadian products, but we don't have it on county roads particularly. I assume the State/Federal system, rather than the county system handles this traffic. You do wind up with some heavy traffic, apparently, each on your county and township roads?

Mr. ARNOLD. Yes, we have what is called a secondary system in the State of Montana. I don't know how it is in your State, but we do give State and Federal maps on that money to build those roads. The maintenance of those roads are left with the county. They are a county road. But we receive some State funding, and most of the county's allocations for State moneys to make the Federal match is pretty limited. And ours alone is like 5 or 6 years into the future used up.

Mr. JOHNSON. Thank you.

I want to thank all of the members of the panel, individuals who took the time to present their testimony to us, and everyone who attended today. I think this testimony has been very valuable to the subcommittee. And we will be wrestling with this in context of the GATT and NAFTA debate. Given that the end-use issue will probably be taken up in reconciliation, these are all very timely hearings and I think matters of critical importance. I hope we're going to sustain viable family farm and ranch economy all across the northern plains. But, really, all across America. Your testimony is very helpful to us.

I just want to thank you for, apart from just the hospitality to me, the subcommittee, and the staff, for sending Pat Williams and joining Ag because he's well-respected on both sides and a highly regarded individual and a great person to work with. So thank you again.

Mr. WILLIAMS. Would the Chair yield?

Mr. JOHNSON. I would yield for just a moment.

Mr. WILLIAMS. I won't be so long as to have you miss the flight.

I want to thank you and the Congressman Peterson, and you good friends, fine Members of the House and great friends of farmers. I do want folks to know that we had intended to take a couple hours to hear from all of you, because we were going to fly in here last night and start this hearing about 9:30 a.m.

They had a tour arranged for these two gentlemen, as well as lunch with some folks. We had to cancel those two hearings and start the hearing a little later.

Having said that, I want you to know why we were late staying. Three of us stayed late in Congress to vote yes on cutting our own congressional budgets. You don't hear that if I don't tell you. The press won't carry it.

Tim Johnson and Pat Williams have even less money than we have now trying to represent the whole State, just like all Members are going to have to before this year is out.

So that's where we were last night instead of out here in Montana, voting to cut our own budget. Fifteen percent over 2 years, by the way, cut. About time.

Thanks.

Mr. JOHNSON. All right. Thank you. And, with that, this subcommittee is adjourned.

[Whereupon, at 1:15 p.m., the subcommittee was adjourned, to reconvene, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

Prepared by Herbert Karst
Farmer from Northern Montana
Director, Montana Grain Growers Association
Director, National Barley Growers Association

Thank you for this opportunity to share with this committee a few of my thoughts, my fears, and my frustrations with the upheaval of what had been a rather orderly grain marketing system in the Northern U. S. I hope to briefly summarize how the markets which we had built using long term contracts and land retirement programs financed by U. S. farmers and taxpayers have been decimated by a very poorly written trade agreement.

I am the third generation of my family to have managed a dryland wheat and barley farm located one hundred and twenty miles north of Great Falls and only two miles south of the Canada-U. S. boundary. I have farmed for twenty four years and presently produce spring wheat, malting barley, canola, cattle, and hay on 4400 acres. For the past twenty-one years, we have produced malting barley under contract with a major brewing company. This continues to be our principal crop and the subject to which I shall concentrate the major portion of my testimony today.

Canada, it seems, has found the ultimate loophole in U. S. farm policy. A key provision of our cereal grain commodity programs was the use of the Export Enhancement Program (EEP) to allow U. S. grain exporters to continue to move grain into the highly competitive export market at world prices, while still allowing domestic prices for these grains to hover somewhat higher. Stable U. S. production was the goal. Balancing supplies encouraged by these higher prices with acreage restrictions and a land reserve program became a function of the Secretary of Agriculture. But encouraged by the one-sided terms of the Canadian Free Trade Agreement(CFTA) and angered by our use of EEP, Canada

soon realized that instead of competing with the U. S. in the export market, it now had an opportunity to simply dump excess supplies of grain on the U. S. market and let us worry about finding a home for it.

How much grain has been imported? The United States Department of Agriculture (USDA) says that feed barley imports from Canada have climbed from 591,000 bushels in 1990 to 7.1 million bushels in just the first nine months of 1992. When all forms of barley are considered, that is feed, malting, malted, pearled, and brewed, this figure climbs to 21.6 million bushels during these same nine months.

A Canadian newsletter estimates that the U. S. will import 130 million bushels of wheat, barley and oats during the 1992-1993 marketing year. This would be the equivalent of 633 unit trains of grain or a grain train stretching the entire 380 mile width of Montana's grain producing area from Cut Bank to Culbertson. This amount is also equal to the amount of wheat produced in Montana during the past year. 265,000 bushels entered Toole County, where I live, during the month of January.

Much of this grain was frost and/or sprout damaged wheat, caused by the August snowstorm which hit Southern Alberta. Canada, proud of its reputation for selling high quality wheat, had graded it as feed wheat. Once in the U. S., though, all but the most severely damaged was then either re-graded as milling quality by our more lenient standards or was mixed with better quality U. S. wheat to meet our milling grades. It then was either moved to our flour mills or was exported to Japan. One can only hope that it

wasn't sold with EEP credits, but the temptation to do so must have been strong considering the profits to be made from doing so. Either way it displaced U. S. commodities which then may have been sold only by using the Export Enhancement Program. These millions of bushels flooded U. S. markets, lowering prices and resulting in increased levels of deficiency payments and great expenditures for EEP.

Another effect of this flood of damaged wheat was a lowering of the quality of the wheat exported from this country and a raising of the quality of the wheat exported from Canada. All the while American producers were denied access to a strong market for quality wheat in Canada due to their system of pricing, their varietal licensing and their import restrictions.

The effect on barley prices and our traditional marketing system has been even more dramatic. As stated previously, We, along with most barley producers in this area, have participated in a long term contacting relationship with various brewing and malting companies. Prices were stable and determined partially by using cost of production figures. A sense of co-operation between producer and buyer came from the fact that both could factor consistent prices into their cashflow projections. All that changed, however, when the politics of international trade wars, farm programs and their ramifications such as the 5% malt barley assessment, and Canada's completely different malt barley marketing system were dropped on us. One major brewing company has dropped all of it contracts for the production of dryland malting barley in the U. S., but is instead contracting with Canadian producers whose

subsidized rail rates allow them to move barley from Southern Alberta to the Great Lakes for much less cost than doing so on an American rail line. Yet, almost inconceivably, the CFTA views this rail subsidy as having no effect on bilateral trade.

Due to this decline in the demand for U. S. malting barley, farmers in Toole County were this winter storing 500,000 bushels of barley which had been produced in excess of their barley contract. Unable to even receive a bid on it for malting purposes, they were forced to sell it as feed barley at a loss of about $750,000.

I, too, had 50,000 bushels of this excess malting barley. Seeing articles about the shortage of quality malting barley in Canada, I had my barley samples tested by the Alberta Wheat Pool. Although the quality was excellent, we were denied an import license to sell barley into the Canadian market.

I hope that you can visualize the resulting anger felt by these Toole County barley producers as they begin to haul this quality product the forty miles to sell it for cattle feed at depressed prices and all the while quite literally being run off the freeway by convoys of trucks from Canada. The elevators struggled to find room for all of the imported grain and grain trains were weeks behind schedule. Prices for feed barley continued their downward spiral, from $2.10 last year to $2.00 this past fall to their current level of $1.77 per bushel. To add to our frustrations, these Canadian trucks, because of a over-weight exemption on the first 35 miles of Interstate 15, could legally haul loads far heavier that what our trucks could legally haul.

We felt betrayed by the grain buyers who we used to view as

partners and friends. Even our farmer owned co-operative elevator began to buy Canadian grain in order to compete for bushels with their corporate counterparts. We resented the government who lured us into Conservation Reserve Program Contracts and Acreage Reduction Program Requirements; who saddled us with swampbuster and sodbuster requirements, and insisted that we change our proven and economical methods of tillage in order to preserve this nation's blessed soil resources all for the promise of some support of our domestic grain prices from the cutthroat tactics that been previously only been used in the world market.

U. S. producers face an additional inequity as they attempt to move to alternative crops such as canola. Because of the exorbitant cost of registering farm chemicals in the U. S., we are prohibited from using such chemicals as Far-go for wild oats control even though the same chemical is legal in Canada. That Canadian canola is then imported into the U. S. without restrictions.

What saddens me most is the fact that U. S. grain buyers and the Canadian Wheat Board seem determined to fight this trade war on the fertile fields of the northern U. S. and southern Canada, and the casualties are just as much my Canadian farmer friends as those of us south of the border. They need stability in their market just as much as we do.

Are the consumers benefiting from this increased competition and lowering of farm prices? We all know that the price of wheat means almost nothing when it comes to pricing bread. Or even though there is less than five cents worth of oats in a box of

Cheerios, that same cereal has a retail value greater than that of T-bone steak per pound. But what about my specialty, malting barley?

This price war may reduce the price of malting barley by about $1.50 per cwt. Since it takes about two thirds of a pound of barley to make a gallon of beer, the price of beer could be lowered by about one cent per gallon. If the average American drinks 15 gallons of beer per year, we may have lost an entire industry to save him 15 cents per year.

Now the Northern Free Trade Agreement (NAFTA) is before Congress for ratification. The portion dealing with barley says that the U. S. will have reduced tariffs on 120,000 metric tons of barley imports into Mexico while Canada will have reduced tariffs on 30,000 metric tons. What isn't generally known, however, is that the American barley quota could be filled with barley which was grown in Canada but shipped from a source in this country. I don't think we should be so gullible in giving away our markets a second time! Furthermore, how can we, as individuals, ever expect to effectively compete in out local markets with the CAB when even our largest grain companies seem to be losing the market share war on the export scene even with the help of EEP.

A new twist developed last Wednesday with the announcement that Canadian producers will be allowed to market or contract their barley directly into the U. S. In return, we were, at last, granted access to the Canadian barley market. My concern, though is that their two tier pricing system will leave American producers selling into Canada for their initial price only. Canadian

producers would not be subjected to the 5% malt barley assessment meaning that U. S. barley would tend to move to the feed markets while Canadian barley would have a decided price advantage in the malting market. Canadian farmers will never face acreage restrictions or the conservation compliance restrictions which raise our cost of production. All is not equal.

Until Canada is willing to play a role in supply management and unless the Bilateral Trade Commission will recognize all subsidies, including rail and price insurance, and until our environment legislation applies to imports as equally as it does to domestic production, then I cannot help but feel the Montana farmer is been sacrificed on the altar of a trade agreement that was neither free nor fair. Changes must be made, or the American farmer and taxpayer will bear an excruciating cost in the agricultural area for a trade agreement that may be equitable to other industries. I urge Congress to push for adjustments in the CFTA that looks at these inequities. I urge caution and a look at recent history before ratifying NAFTA. Most of all, I think that before we have a continental grain market, the U. S. and Canada have to adopt farm policies that are complimentary and not predatory. My Canadian friends and I have the same problems and needs; there is no need for us to like the Christians and the lions in the Roman Coliseum.

# UNIFARM

EDMONTON, ALBERTA, CANADA

ROY JENSEN – PRESIDENT

TESTIMONY GIVEN BEFORE THE

## U.S. HOUSE OF REPRESENTATIVES

## COMMITTEE ON AGRICULTURE

SUBCOMMITTEE ON GENERAL FARM COMMODITIES

I am pleased to have this opportunity to appear before this subcommittee. It is my sincere hope that what I have to say will help put into clear perspective some of the issues referred to in your invitation.

I believe that a vast majority of Canadian agricultural producers support the principle of free trade, as do the members of our organization. However, from time to time we must be concerned about the interpretation and application of some of the articles of the agreement.

For example, in September of 1992 we were compelled to voice our objection to a new $1 billion initiative under the U.S. Export Enhancement Program. In our view, the program itself and particularly the initiative referred to clearly disregarded the intent of Article 701 (4) of the Canada-U.S. Trade Agreement.

You will be aware that Article 701 (4) says that each Party to the agreement "shall take into account the export interests of the other Party in the use of any export subsidy on any agricultural goods exported to third countries, recognizing that such subsidies may have prejudicial

effects on the export interests of the other Party."

We drew little comfort from assurances that the Program, and the new initiative -- which offered subsidized exports to countries not so favoured in the past -- were aimed at the European Community. The effect would have been no different had it been aimed directly at Canadian producers.

With regard to trade between our two countries we are aware that producers and others in the United States have objected to exports of Canadian Wheat into that country. It is said, for example, that the Canadian Wheat Board is competing unfairly with U.S. producers because it pays transportation costs on wheat moving into the United States. That may be technically true because, as the agency charged with the responsibility of marketing certain volumes of grain, it becomes the shipper. But please understand that shipping costs are actually borne by the grain producers since those costs are deducted from payments received.

We want to assure you that the Canadian Wheat Board, a highly respected agency world-wide, is simply doing a specific job for producers of the products under its jurisdiction. It seeks out markets for products and tries to obtain the best possible prices, which are then pooled (Table 1). Pooling means all producers receive the same price, less their share of the transportation costs, dependent on their distance from the export point. The costs associated with doing that job are deducted from the pool account and the balance is then paid to producers (Table 2).

Some concern has also been expressed about the effect the Western Grain Transportation Act may have on prices of grain exported from Canada to the U.S. Certainly its encouragement of off-shore exports

will help shore up our prices to some extent, but not nearly as much as your Export Enhancement Program supports prices in the United States.

In fact, if there were no Western Grain Transportation Act to cover part of the cost of moving grain to tidewater there would be greater pressure to sell Canadian grain into the U.S. at even lower prices. (Average farm gate price for #2 wheat in the 1991-92 crop year was $2.89 PER BU CDN, for #1 feed barley it was $1.72 PER BU. CDN (Table 3)

Furthermore, it must be understood that it is most unlikely that the Western Grain Transportation Act would play a more direct role in exports of Canadian grain to the United States. The freight subsidy being paid under the Act is paid only on grain being moved to terminal positions at Thunder Bay and the West Coast.

One other concern we have heard expressed has to do with the possibility of Canadian grain flowing into the United States and mixing with the grain being exported off-shore from the U.S. We note that you are examining the possibility of employing end-user certificates, as we do in Canada, to offset that concern.

In closing, I want to give you a thumbnail sketch of Unifarm's philosophy on trading arrangements.

Trading arrangements must benefit all parties agreeing to such arrangements. To achieve that agreements must be negotiated in good faith and with a sense of fair play. They must be interpreted and applied with those characteristics foremost. To achieve that there must be clear understanding of practices and systems employed by our trading partners. This event is, in my view, a step in that direction.

June 11, 1993

(Attachments follow:)

TABLE I

Ranking of Returns from Offshore and U.S. Markets /1

| | Late March, 1992 | Early December, 1992 |
|---|---|---|
| **Value of Shipments to JAPAN** | | |
| FOB Vancouver Value (US $/MT) | $121.00 | $113.91 |
| Cdn/US Exchange | 1.190 | 1.270 |
| FOB Vancouver Value (Cdn $/MT) | $143.99 | $144.67 |
| less rail and terminal costs (Cdn $/MT) / 2 | $19.69 | $21.06 |
| Track Alberta Value (Cdn $/MT) | $124.30 | $123.61 |
| **Value of Shipments to SAUDI ARABIA** | | |
| FOB UK Value (US $/MT) | $96.00 | $102.00 |
| less transportation differential (US $/MT) / 3 | $3.00 | $3.00 |
| FOB Vancouver Value (US $/MT) | $93.00 | $99.00 |
| Cdn/US Exchange | 1.190 | 1.270 |
| FOB Vancouver Value (Cdn $/MT) | $110.67 | $125.73 |
| less rail and terminal costs (Cdn $/MT) / 2 | $19.69 | $21.06 |
| Track Alberta Value (Cdn $/MT) | $90.98 | $104.67 |
| **Value of Shipments to SHELBY, MONTANA** | | |
| Spot Price (US $/MT) | $91.86 | $84.97 |
| less U.S. duty, truck, and marketing costs / 4 | $17.07 | $17.22 |
| Track Alberta Value (US $/MT) | $74.79 | $67.75 |
| Cdn/US Exchange | 1.190 | 1.270 |
| Track Alberta Value (Cdn $/MT) | $89.00 | $86.04 |
| **Value of Shipments to YAKIMA VALLEY** | | |
| Yakima Spot Price (US $/MT) | $114.64 | $110.20 |
| less U.S. duty, rail and marketing costs / 4 | $39.76 | $39.60 |
| Track Alberta Value (US $/MT) | $74.88 | $70.60 |
| Cdn/US Exchange | 1.190 | 1.270 |
| Track Alberta Value (Cdn $/MT) | $89.11 | $89.66 |
| **Value of Shipments to CALIFORNIA (TULARE)** | | |
| Tulare Spot Price (US $/MT) | $136.69 | $130.05 |
| less U.S. duty, rail and marketing costs / 4 | $65.34 | $65.41 |
| Track Alberta Value (US $/MT) | $71.35 | $64.64 |
| Cdn/US Exchange | 1.190 | 1.270 |
| Track Alberta Value (Cdn $/MT) | $84.91 | $82.09 |

1/ These are examples from specific dates. Returns from various markets vary from day to day in response to changing market fundamentals (e.g. excess supply by region and grain in the U.S., and excess supply of other exporters), international export subsidy levels, variations in ocean freight differentials, and rail freight costs of internal U.S. shipments.

2/ Includes rail freight in addition to terminal cleaning and fobbing costs.

3/ Ocean freight from Vancouver to Saudi Arabia is approximately US $3.00/MT higher than ocean freight from the U.K. to Saudi Arabia.

4/ Includes rail costs and accredited exporter margin.

TABLE 2

ESTIMATED COSTS OF MOVING WHEAT FROM A MID-PRAIRIE POINT TO EXPORT POSITION

| COSTS | 1982/83 | 1983/84 | 1984/85 | 1985/86 | 1986/87 | 1987/88 | 1988/89 | 1989/90 | 1990/91 | 1991/92P |
|---|---|---|---|---|---|---|---|---|---|---|
| | DOLLARS PER TONNE | | | | | | | | | |
| PRIMARY ELEVATOR | | | | | | | | | | |
| ELEVATION[1] | 6.18 | 6.27 | 6.40 | 6.09 | 6.27 | 6.27 | 6.98 | 7.26 | 7.94 | 8.26 |
| REMOVAL OF DOCKAGE | 1.06 | 1.11 | 1.13 | 1.67 | 1.67 | 1.67 | 1.84 | 2.05 | 2.30 | 2.41 |
| SHRINKAGE | .48 | .48 | .47 | .40 | .32 | .34 | .49 | .43 | .14 | .10 |
| CARRYING CHARGES[2] | 4.39 | 4.36 | 6.25 | 4.05 | 2.49 | 2.30 | 3.42 | 4.95 | 3.29 | 3.28 |
| RAILWAY FREIGHT | 5.07 | 5.64 | 8.08 | 6.30 | 6.27 | 6.65 | 7.64 | 9.45 | 10.70 | 11.07 |
| MARKETING | | | | | | | | | | |
| INTEREST, BANK & OTHER CHARGES[3] | .32 | .87 | 1.76 | 2.33 | .78 | (.20) | (1.44) | .13 | 1.58 | 1.07 |
| CANADIAN WHEAT BOARD ADMINISTRATIVE COSTS[3] | .78 | .86 | 1.34 | .97 | .86 | 1.24 | 1.41 | 1.26 | 1.06 | .72 |
| TERMINAL POSITION | | | | | | | | | | |
| STORAGE[2] | .89 | .92 | 1.99 | 1.37 | .83 | 1.00 | 1.11 | 1.52 | .71 | .65 |
| FOBBING CHARGES: | | | | | | | | | | |
| - VIA ST. LAWRENCE PORTS[4] | 4.67 | 4.90 | 5.01 | 5.24 | 5.24 | 5.24 | 5.51 | 5.71 | 6.39 | 6.58 |
| - VIA PACIFIC SEABOARD[5] | 4.74 | 4.98 | 5.08 | 5.23 | 5.23 | 5.23 | 5.60 | 5.97 | 6.41 | 6.57 |
| LAKE TRANSPORTATION[6] | 16.90 | 17.31 | 18.32 | 19.77 | 17.55 | 17.78 | 17.91 | 16.60 | 17.42 | 16.02 |
| TRANSFER POSITION | | | | | | | | | | |
| STORAGE | .69 | .58 | 1.03 | 1.45 | .99 | 1.19 | 1.87 | 1.51 | .91 | 1.83 |
| FOBBING CHARGES[7] | 1.47 | 1.56 | 1.60 | 2.40 | 2.27 | 2.15 | 2.04 | 2.07 | 2.18 | 2.23 |
| TOTAL | | | | | | | | | | |
| - VIA ST. LAWRENCE PORTS | 42.90 | 44.86 | 53.38 | 52.04 | 45.54 | 45.63 | 48.78 | 52.94 | 54.62 | 56.22 |
| - VIA PACIFIC SEABOARD | 23.91 | 25.49 | 32.50 | 28.41 | 24.72 | 24.50 | 27.05 | 33.02 | 34.13 | 34.13 |

1 FILED TARIFF FOR RECEIVING, ELEVATING AND LOADING.

2 OPERATING COSTS AS REPORTED IN THE CANADIAN WHEAT BOARD ANNUAL REPORT WERE DIVIDED BY THE TOTAL TONNES SOLD DURING THE RESPECTIVE POOL PERIOD. 1991/92 FIGURES ARE ESTIMATED.

3 INCLUDES INTEREST, BANK AND OTHER CHARGES AND CANADIAN WHEAT BOARD ADMINISTRATIVE COSTS.

4 THUNDER BAY FOBBING WHICH INCLUDES ELEVATION, OUTWARD WEIGHING AND INSPECTION, TERMINAL ELEVATOR RECEIPT CANCELLATION, LAKE SHIPPERS' CHARGES, SUPERINTENDENCE AND FORWARDING BROKERAGE CHARGES.

5 INCLUDES ELEVATION, OUTWARD WEIGHING AND INSPECTION, TERMINAL ELEVATOR RECEIPT CANCELLATION, B.C. SHIPPERS' CHARGES, SUPERINTENDENCE, WHARFAGE AND FORWARDING BROKERAGE CHARGES.

6 INCLUDES LAKE FREIGHT, LAKE BROKERAGE, CARGO RATES, INSURANCE, ST. LAWRENCE SEAWAY AND WELLAND CANAL TOLLS AND INWARD ELEVATION INTO TRANSFER ELEVATOR.

7 INCLUDES OUTWARD ELEVATION, OUTWARD INSPECTION AND WEIGHING, SUPERINTENDENCE, WHARFAGE AND FORWARDING BROKERAGE CHARGES.

SOURCE: CANADIAN GRAIN COMMISSION.

TABLE 3

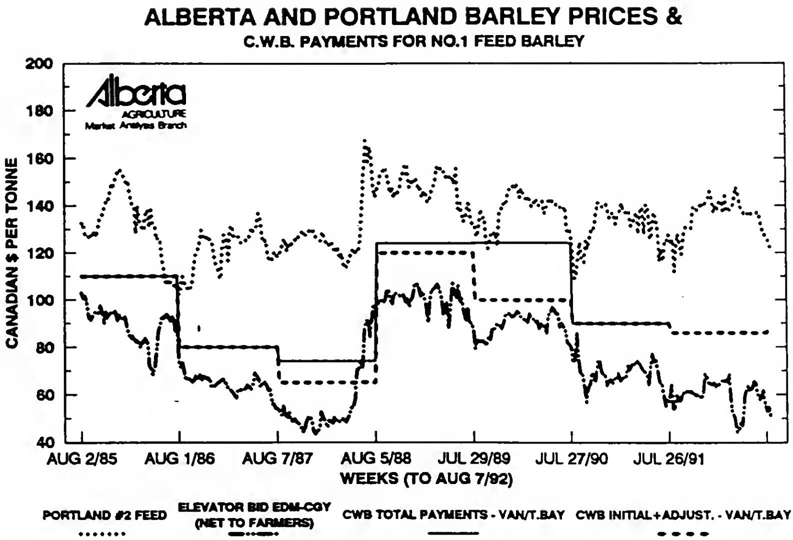
WEIGHTED AVERAGE PRICES RECEIVED BY FARMERS FOR NON-BOARD GRAINS, WESTERN CANADA[1]

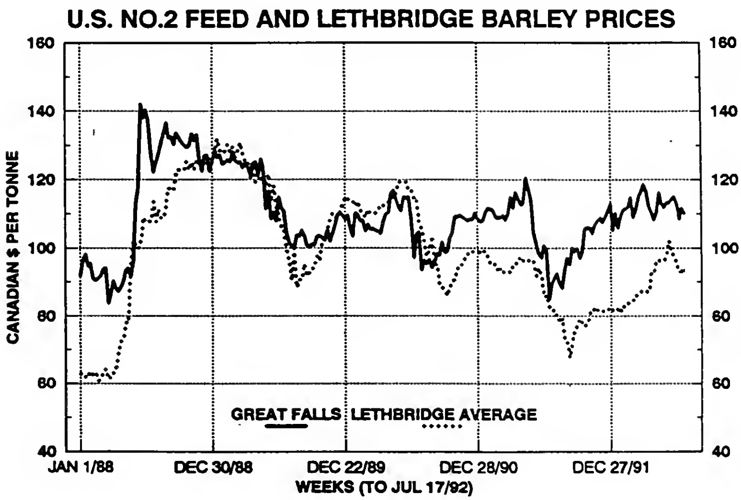
| CROP YEAR | FEED WHEAT | | | | FEED OATS | | | | FEED BARLEY | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | MAN. | SASK. | ALTA. | WESTERN CANADA | MAN. | SASK. | ALTA. | WESTERN CANADA | MAN. | SASK. | ALTA. | WESTERN CANADA |
| | DOLLARS PER TONNE | | | | DOLLARS PER TONNE | | | | DOLLARS PER TONNE | | | |
| 1981/82 | 146 | 145 | 148 | 147 | 106 | 106 | 103 | 104 | 110 | 109 | 108 | 108 |
| 1982/83 | 130 | 122 | 128 | 126 | 80 | 75 | 75 | 76 | 84 | 82 | 84 | 83 |
| 1983/84 | 149 | 143 | 144 | 145 | 109 | 102 | 101 | 102 | 111 | 104 | 106 | 107 |
| 1984/85 | 149 | 153 | 142 | 145 | 108 | 104 | 107 | 107 | 118 | 117 | 121 | 119 |
| 1985/86 | 112 | 104 | 113 | 111 | 89 | 88 | 95 | 93 | 92 | 88 | 96 | 94 |
| 1986/87 | 80 | 71 | 74 | 75 | 68 | 63 | 67 | 67 | 70 | 65 | 66 | 66 |
| 1987/88 | 93 | 91 | 83 | 88 | 90 | 90 | 87 | 88 | 66 | 65 | 64 | 64 |
| 1988/89 | 152 | 133 | 133 | 137 | 140 | 125 | 126 | 128 | 116 | 107 | 108 | 109 |
| 1989/90 | 128 | 112 | 116 | 119 | 87 | 86 | 81 | 82 | 94 | 90 | 93 | 93 |
| 1990/91 | 98 | 97 | 107 | 102 | 67 | 66 | 67 | 67 | 79 | 75 | 82 | 81 |
| $ per bushel (a) | | | 2.91 | 2.75 | | | | | | | 1.96 | 1.94 |
| 1991/92P | | | | | | | | | | | | |
| AUGUST | 84 | 81 | 90 | 86 | 67 | 66 | 68 | 67 | 68 | 66 | 70 | 69 |
| SEPTEMBER | 74 | 70 | 73 | 73 | 69 | 65 | 68 | 67 | 66 | 60 | 63 | 63 |
| OCTOBER | 73 | 72 | 75 | 73 | 72 | 70 | 72 | 72 | 68 | 62 | 65 | 64 |
| NOVEMBER | 75 | 73 | 75 | 75 | 76 | 75 | 76 | 76 | 69 | 63 | 68 | 68 |
| DECEMBER | 78 | 74 | 79 | 78 | 78 | 78 | 79 | 79 | 71 | 65 | 71 | 70 |
| JANUARY | 84 | 80 | 82 | 82 | 83 | 84 | 83 | 83 | 74 | 67 | 71 | 71 |
| FEBRUARY | 90 | 90 | 86 | 89 | 99 | 98 | 95 | 96 | 77 | 70 | 72 | 73 |
| MARCH | 95 | 88 | 88 | 91 | 101 | 100 | 98 | 98 | 77 | 69 | 73 | 73 |
| APRIL | 93 | 83 | 89 | 89 | 93 | 94 | 94 | 93 | 78 | 70 | 75 | 75 |
| MAY | 96 | 83 | 90 | 92 | 96 | 95 | 94 | 94 | 78 | 72 | 78 | 78 |
| JUNE | 92 | 82 | 86 | 88 | 96 | 96 | 95 | 96 | 77 | 73 | 79 | 78 |
| JULY | 85 | 81 | 88 | 87 | 88 | 90 | 88 | 89 | 71 | 71 | 76 | 75 |
| SUMMARY | 82 | 78 | 81 | 81 | 85 | 85 | 85 | 85 | 73 | 67 | 72 | 72 |
| Price / bushel | | | 2.20 | 2.20 | | | | | | | 1.72 | 1.72 |

[1] PRICES ARE CALCULATED FROM RECORDS SUBMITTED BY PRIMARY, PROCESS AND INLAND TERMINAL ELEVATORS, GRAIN DEALERS, FEED MILLS AND FEED LOTS.

SOURCE: CANADIAN GRAIN COMMISSION.

(a) Feed Wheat = 36.7 bus/tonne
Feed Barley = 41.75 bus/tonne

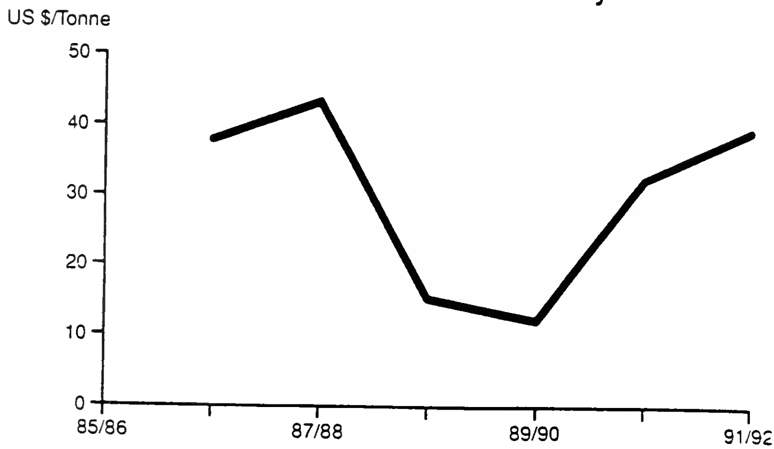

ALBERTA AND PORTLAND BARLEY PRICES &
C.W.B. PAYMENTS FOR NO.1 FEED BARLEY
Alberta AGRICULTURE
CANADIAN $ PER TONNE
AUG 2/85
AUG 1/86
AUG 7/87
AUG 5/88
JUL 29/89
JUL 27/90
JUL 26/91
WEEKS (TO AUG 7/92)
PORTLAND #2 FEED
ELEVATOR BID EDM-CGY (NET TO FARMERS)
CWB TOTAL PAYMENTS - VAN/T.BAY
CWB INITIAL+ADJUST. - VAN/T.BAY


U.S. NO.2 FEED AND LETHBRIDGE BARLEY PRICES
CANADIAN $ PER TONNE
GREAT FALLS
LETHBRIDGE AVERAGE
JAN 1/88
DEC 30/88
DEC 22/89
DEC 28/90
DEC 27/91
WEEKS (TO JUL 17/92)

RECENT U.S. SUBSIDIZATION OF DURUM EXPORTS (EEP)

| 1993 | $/Tonne |
|---|---|
| March 29 - April 2 | 31.35 |
| April 5 - 9 | 34.87 |
| April 12 - 16 | 34.28 |
| April 19 - 23 | 31.97 |
| April 26 - 30 | 32.98 |
| May 17 - 21 | 32.36 |

Figure 2: U.S. Export Enhancement Program (EEP) Bonus Levels for Barley



## CANADIAN PRODUCTION AND EXPORTS OF DURUM WHEAT

| | Production | Total Exports | Exports to U.S | U.S. Exports Percent of Total |
|---|---|---|---|---|
| | | '000 Tonnes | | |
| 1992-93 | 3,138 | 2,300(f) | N/A | N/A |
| 1991-92 | 4,586 * | 3,090 | 416 | 13.4 |
| 1990-91 | 4,197 | 3,232 | 370 | 11.4 |
| 1989-90 | 4,140 | 2,838 | 218 | 7.7 |
| 1988-89 | 1,908 | 2,003 | 186 | 9.2 |
| 1987-88 | 4,014 | 2,754 | 203 | 7.4 |
| 1986-87 | 3,878 | 1,957 | 61 | 3.1 |
| 1985-86 | 1,960 | 1,385 | 0 | 0 |

* Record high due to good yield

## CANADIAN PRODUCTION & EXPORT OF BARLEY
'000 Tonne

| Crop Year | Production | Exports | Export to U.S. | U.S. % of Total |
|---|---|---|---|---|
| 1992-93 | 10,919 | N/A | N/A | N/A |
| 1991-92 | 11,617 | 3,659 | 452 | 12.3 |
| 1990-91 | 13,441 | 4,823 | 389 | 8.0 |
| 1989-90 | 11,784 | 4,497 | 214 | 4.8 |
| 1988-89 | 10,326 | 2,840 | 213 | 7.5 |
| 1987-88 | 13,916 | 4,594 | 278 | 6.0 |
| 1986-87 | 14,568 | 6,719 | 118 | 1.8 |
| 1985-86 | 12,387 | 3,795 | 96 | 2.5 |

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Montana WIFE Grain Chairman

Montana Women Involved in Farm Economics, WIFE offers the following testimony. WIFE encourages the United States grain standards be set to equal or surpass the standards of our worldwide competitors. We support the pricing of grain according to quality when sold by the producers at the first marketing point. Along this line, WIFE urges the United States Department of Agriculture to develop a 24 hour reporting system for all imported grains which includes class, quality, price, and destination. These statistics should be published weekly. Montana WIFE recommends that the U S use a food grade dye to track any foreign grains coming into the U S.

We challenge the USDA to strengthen the inspection of all commerically stored grains because WIFE believes all imported grains should comply with all USDA specifications. However, we urge that as long as the Commodity Credit Corporation has a commodity in storage, that commodity should not be imported.

While WIFE believes in fair (notice the 'fair'instead of 'free') world-wide export-import regulations, we oppose the North American Free Trade Agreement in its present form. We feel it provides no significant improvement on U S access to Mexican markets and no evidence can be seen regarding price transparency with all American agriculture products having been incorporated into the text.

We don't want to see Congress ratify any trade agreements that would 1) limit the authority of the U S Congress to legislate programs, 2) be detrimental to

producer income, or 3) adversely affect the Gross National Product. WIFE feels NAFTA leaves the producer exposed on all three of the above.

To correct this, we have urged Congress to use specific language in writing agricultural legislation to avoid misinterpretations, and the USDA to also be specific in writing regulations so that the TRUE INTENT OF THE LAW will be implmented and cannot be changed or misinterpreted.

WIFE supports and endorses the implementation of end-use certificates to track foreign grains coming in to the U S and as I mentioned before, use of a food grade dye to color the grain for further tracking as Canada does.

On durum wheat, our National WIFE President, Joyce Spicher, was asked late in 1992 by Senators Patrick Leahy and Richard Lugar, to present testimony on trade issues. She offered this testimony: "Rules of origin should be strengthened and enforced for ALL commodities, not just a select few. The American durum wheat market has been destroyed by imports following the Canadian/US Agreement. No segment of American agriculture should be singled out and sacrificed for an agreement."

Our transportation policy urges that the producer have access to unit trains at peak times as well as off times. This past winter, unit trains were a common sight at elevators from Minnesota to Washington; however, many US producers were unable to ship their grain as the cars were being loaded with foreign grain.

It is interesting to note that, the Maine potato producers are having problems with Canadian 'potato dumping'. The Maine Senators, George Mitchell and William Cohen contacted Mike Espy and said the volume of Canadian potatoes exported

to the U S through Maine as of April 1 was running 129 percent ahead of 1992. They urged a temporary duty be placed on imported Canadian potatoes at about 35 cents per 100 pounds of Canadian potaotes. Since the potato industry represents roughly 25 percent of the economy of Northern Maine, the $55 million lost greatly affects the economy of their state.

Now, we discover through the Associated Press an article by Philip Brasher in the AG WEEK, (dated 6-7-93), I quote: After several years of delay, the U S government is preparing to impose tariffs and quotas on drink mixes and other food imports to protect U S sugar growers.

Agriculture Secretary Mike Espy has written President Clinton urging him to take those measures as an emergency basis. Industry officials expect Clinton to approve them.

A recently released report by the International Trade Commission says manufacturers are avoiding U S sugar quotas by importing drink mixes, gelatins and other items made with cheaper foreign sugar.

Imports of some Canadian-made products, including tea mixes and gelatins, shot from 6,700 metric tons to 104,000 metric tons from 1990-1992 at the same time that U S sugar beet growers were reaping bumper crops, unquote.

Our policy urges that the U S sugar program be maintained and that the administration manage it as Congress intended and that sugar be treated fairly in all trade agreements. unquote. Why do I talk of potatoes and sugar when this hearing is on Canadian grain? Because they are agriculture products that are suffering because of the CFTA.

Now we come to the Canadian Wheat Board saying that as of August 1, 1993, the barley, malt and feed, producers will be able to choose between marketing their product in Canada and the U S through the CWB or on their own. Canadian Trade Minister, Micheal Wilson, says this is "consistent with the Free Trade Agree-

ment's approach to opening up two-way trade between Canada and the U S in a fair and balanced way."

North Dakota Barley Council Marketing director, John Mittleider, disagrees. He feels that since the barley market isn't 'elastic'-that is, demand for feed and malt is rather stable, a sharp increase in imported barley will displace more U S barley. The Canadian barley movement will be for six years and reviewed in its sixth year to see whether arrangements will continue.

The GATT greements have not been concluded, the Mexican Free Trade Agreement, Canadian Free Trade Agreement, and the North American Free Trade Agreement have not been ratified by Congress, but this hasn't stopped yet another agreement coming to light. Reps. Crane (R-ILL) and Gibbons (D-FL) have drawn up HR7 3 which orders that talks begin on a Pacific Rim free trade agreement that would put even more Americans jobs at risk unless there were adequate protections. Countries include the U S and Indonisia, Malaysia, Phillipines, Singapore, Thailand, Brunei, Australia, New Zealand, Taiwan, South Korea, Japan and Hong Kong, This information came by way of George Paul, MFU.

Con Johnson, a Bracken, Sask. producer is questioning the CWB on the sale of Canadian grain to the U S. Neither the Canadian or U S farmer profited from these sales.

No agricultural organization is against world wide trade--WE WANT FAIR, TWO WAY TRADE!

WIFE believes the U S should vigorously pursue export programs and the Export Enhancement Program should be funded at the maximum level allowable. At the same time, we oppose any imported grain from being included or participating in any U S government marketing and /or agriculture programs.

It is my understanding that the mechanism is in the CFTA to solve this so called 'dumping problem' IF Congress would act.

In February, I visited with an Alberta Provincal Ag person who told me our government (the U S) was actively pursuing Canadian grain purchases. Who did make the money on these transactions? Governments, elevators, who?

There are currently two bills in Congress, S324, Senator Baucus' (D-MT) and S730, Sen. ators Dorgan and Conrad(ND). We urge you to study these carefully as they address the problems spoke of today.

Thank you,

Sharon. Jorman

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Frank "Bud" Daniels, President

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TESTIMONY OF JOHN URTON

before the

HOUSE AGRICULTURE COMMITTEE
SUBCOMMITTEE ON GENERAL FARM COMMODITIES

on

THE UNFAIRNESS OF THE
CANADIAN FREE TRADE AGREEMENT
ON U. S. FARMERS

June 11, 1993

Mr. Chairman and Members of the Committee:

Thank you for coming to Great Falls to hear the concerns of others and myself.

My name is John Urton. I have been farming, with my wife DeeAnn, in northeastern Montana near Vida for the last 14 years. We grow spring and winter wheat and some barley. I am here today to talk about the unfairness of the Canadian Free Trade Agreement on the Montana, and most likely, the U.S. farmer.

In January, 1993, Canadian grain began to be brought down by trucks and sold at a local elevator in Wolf Point, Montana. A manager in Great Falls for the company said it could become a common practice, according to the Wolf Point Herald. The manager said that they had already loaded one 52–car freight train with the Canadian wheat and expected to load another one. According to my figures, this would be about 364,000 bushels (or over 400 semi–truck loads) that came down during this approximately two–week period.

Most of the wheat brought into Wolf Point, according to the Wolf Point Herald, was number two spring wheat with two to four percent frost damage. This a lower quality of wheat than what most Montana farmers grow but it could still be used for human consumption, the Herald reported. It is my understanding in talking with grain elevator managers and in reading news reports, that the type of spring wheat usually grown in Canada is a type called Grandin. This is a lower quality of wheat that, in Canada, is considered a feed grain (for animals) but, in the U.S., is considered a milling grain (for human consumption). Therefore, in Canada, the Grandin wheat fetches lower feed grain prices, while here in the U.S., the same wheat will bring a much higher milling grain price.

Since January of this year, wheat prices have dropped from \$3.29 to about \$2.46 per bushel. I cannot blame this drop of 83¢ (or twenty–five percent of my income from grain sales) on just the influx of Canadian grain into the U.S. However, I do know that grain market prices are influenced by a few things, including the condition of the new crop that is being grown, the amount of surplus grain in storage and the amount of current exports.

It is truly amazing to me in these times of current good crops, large surpluses and a lack of exports, that we are importing more grain from Canada.

According to the Billings Gazette of February 14, 1993, which listed figures from the Canadian Grain Commission, spring wheat imports from Canada have risen from 6.66 million bushels during August to December of 1991 to 15.45 million bushels from August to December of 1992. This is an increase of 132 percent. It is frightening to think that these imports may keep increasing at this rate.

I spoke with a Canadian grain elevator district manager in a phone conversation and he said that he did not think the Canadians were selling any grain to the U.S. currently. The reason he gave for this was that the prices here in the U.S. are so much lower now. When our U.S. price does get high enough again, I am afraid the Canadians will flood our markets and suppress the price. Lower market prices will hurt farmers but they will also mean more money will be needed by deficiency payments (and at a time when the government is trying to reduce spending,)

There are other ways that the Canadian grain coming down can have adverse effects on our communities. Trucks coming from Canada pay a $10.75 trip permit for 24 hours or they can buy a 3-month license, according to Roovevelt County assessor Dorothy Cody. The Canadian trucks that get this license, Cody said, are only assessed at half value while U.S. trucks are assessed at full value.

Another problem that occurred with the elevator that contracted the Canadian grain affected local farmers directly. Some of the area farmers who had contracts with this elevator, including my father-in-law, were told not to bring their grain into the elevator during this period as they could not handle local grain at this time. This can be a hardship on farmers who need to deliver their grain in order to get money to pay bills or buy groceries.

Still another problem concerned the other local elevators, which includes one cooperative elevator, and their customers. In January, most elevators were "plugged",

meaning they were full and could not accept any grain until they could ship it out. The problem was that grain cars were in very short supply. I, myself, had to wait about three weeks to deliver my wheat to two elevators I had sold it to. According to the Wolf Point Herald, the trains used to ship the Canadian grain out of Wolf Point this winter, were "COT" trains, which are awarded to the highest bidders. The elevator manager in Great Falls confirmed to the newspaper that the company paid a high price for the trains. This elevator, I believe could afford to bid higher for "COT" trains because they are probably making more on a bushel of Canadian grain than an elevator handling local grain. This is very unfair to the local farmer when the Canadian wheat can be delivered and shipped out while the local grain cannot.

Where the Canadian grain is going and what it is being used for is another concern. There are no end-user certificates required of this Canadian grain and who knows where it is going or what price is being paid for it. Some elevator workers that I have talked with are convinced that it is being blended with our U.S. grain and sent on to mills or, even worse, being blended with higher quality wheat and sent out on our government's EEP program.

I am bewildered by the fact that our government has spent so much time on these trade agreements, such as the CFTA and NAFTA and even the GATT talks. Does someone really believe that we will gain great markets through these? As the CFTA shows, these trade policies will not help the American producer. The CFTA has not opened markets for us, the U.S. farmers, as Canadian grain prices are much lower than U.S. prices. The CFTA has only aided the Canadian farmer as it has enabled him an opportunity to higher U.S. prices.

In conclusion, my main concern with the Canadian wheat being imported through the CFTA is that it is, and will, adversely affect the price we receive here in the U.S. for our grain. American grain farmers are having a tough time--our target prices have been lowered the last few years, our costs (especially machinery costs) have risen and major purchases have been put off, and market prices have gone down.

According to Secretary of Agriculture Mike Espy, the U.S. farmer averaged about $6,000 a year in income. This is not a livable wage for anyone and is not a workable return on anyone's investment. This means farmers are not paying income taxes and some may need or are on government assistance programs. Any policy that will add to these conditions would be a big and costly mistake for the U.S. government and I feel that the importing of Canadian grain is such a policy. Farmers and the U.S. government will both benefit when policies such as the Canadian Free Trade Agreement are ended and farmers are simply guaranteed a reasonable price for what they grow.

PRESENTED BY

DAVID DAVISON
DISTRICT DIRECTOR, MONTANA FARM BUREAU FEDERATION

MR. CHAIRMAN, COMMITTEE MEMBERS, THANK YOU FOR THE OPPORTUNITY TO TESTIFY AT THIS HEARING. FOR THE RECORD, MY NAME IS DAVID DAVISON. I AM HERE REPRESENTING THE MONTANA FARM BUREAU FEDERATION, A GENERAL FARM ORGANIZATION WITH OVER 5,000 MEMBER FAMILIES. MY FAMILY AND I RAISE GRAIN ON ABOUT 4,000 ACRES, 20 MILES EAST OF GREAT FALLS. IN ADDITION TO BEING A MEMBER OF THE BOARD OF DIRECTORS OF THE MONTANA FARM BUREAU FEDERATION, I AM ALSO CHAIRMAN OF THE WHEAT AND FEED GRAINS COMMITTEE AND A MEMBER OF THE AMERICAN FARM BUREAU FEDERATION WHEAT COMMITTEE.

MY TESTIMONY WILL ADDRESS THE SEVEN QUESTIONS YOU POSED TO THE MONTANA FARM BUREAU. BUT BEFORE I DO SO, I WOULD LIKE TO MAKE THE POINT THAT THE REAL PROBLEM IS NOT THE MOVEMENT OF CANADIAN GRAIN INTO U.S. DOMESTIC MARKETS, BUT RATHER A PROBLEM OF DEPRESSED WORLD WHEAT PRICES RESULTING FROM LACK OF PROGRESS IN REDUCING EXPORT SUBSIDIES THROUGH GATT NEGOTIATIONS. THIS IS NOT TO DIMINISH THE PROBLEMS CAUSED BY PREDATORY PRICING BY THE CANADIAN WHEAT BOARD (CWB), BUT I BELIEVE MY ANSWERS TO YOUR QUESTIONS WILL VALIDATE THIS POINT. IN ADDITION IT IS IMPERATIVE THAT YOU CONSIDER THAT SINCE THERE HAS BEEN NO MEANINGFUL PROGRESS IN THE GATT, IT IS A VERY POOR TIME TO BE CUTTING FARM INCOME BY REDUCING PAYMENT ACRES, ESPECIALLY WITH ACREAGE SET ASIDE PROGRAMS WHICH (1) REDUCE THE NUMBER OF ACRES A FARMER CAN GET RETURNS FROM, (2) REDUCE THE NUMBER OF PROGRAM PAYMENT ACRES AND (3) USUALLY REDUCE THE PAYMENT RATE. IN THE CURRENT INTERNATIONAL CLIMATE, REDUCING U.S. PRODUCTION SIMPLY OPENS THE DOOR FOR MORE IMPORTS FROM CANADA AND REDUCES OUR ABILITY TO RETAIN INTERNATIONAL EXPORT MARKET SHARE.

THE REMAINDER OF MY TESTIMONY WILL ADDRESS YOUR QUESTIONS.

(1) IMPORTS OF GRAIN, SUCH AS BARLEY AND SPRING WHEAT: ARE THEY INCREASING AND WHY? IS MORE BEING IMPORTED THAN REPORTED BY USDA? HOW ARE THESE IMPORTS AFFECTING U.S. PRODUCERS?

DURUM AND HARD RED SPRING WHEAT IMPORTS HAVE DOUBLED IN THE PAST 5 YEARS.

CANADA SHIPPED 6 MILLION BUSHELS TO THE U.S. IN 1986, 14 MILLION BU. IN 1990. HRS WHEAT SHIPMENTS INCREASED FROM 15 MILLION BU. IN 1986 TO 25 MILLION

BU. THIS YEAR.

TO PUT THIS IN PROSPECTIVE, IN 1986 DURUM IMPORTS AMOUNTED TO 12% OF DOMESTIC USE, WHEREAS IN 1990, IMPORTS EQUALED 20% OF DOMESTIC USE.

FOR THE 1991-1992 MARKETING YEAR IMPORTS OF HRS, WHITE AND DURUM WHEATS WERE APPROXIMATELY 12%, 19%, AND 21% OF DOMESTIC USE RESPECTIVELY.

PRIOR TO 1982, IMPORTS OF CANADIAN WHEAT INTO THE U.S. WERE NEGLIGIBLE. THE EXPORT QUOTAS OF THE CANADIAN WHEAT BOARD (CWB) WERE RESTRICTIVE, THUS CAUSING CANADIAN FARMERS TO EITHER HOLD THEIR EXCESS PRODUCTION FOR MARKETING IN THE SUBSEQUENT MARKETING YEAR, OR MOVING THE WHEAT AS A MUCH LOWER PRICED "OFF-BOARD" FEEDGRAIN. IN THE MID 1980'S, HOWEVER, THE CWB CHANGED ITS QUOTA ALLOTMENTS SUCH THAT THEY ARE NO LONGER RESTRICTIVE. UNDER THE CURRENT SYSTEM, THERE IS NO ECONOMIC INCENTIVE FOR CANADIAN WHEAT TO BE DIVERTED FROM ITS VALUE AS WHEAT ($120/TON) TO THAT OF A FEEDGRAIN ($80/TON).

THERE MAY BE A LACK OF UNDERSTANDING ABOUT THE MARKETING MECHANISMS OF THE CANADIAN WHEAT BOARD BY SOME U.S. FARMERS. THIS MISUNDERSTANDING MAY LEAD THEM TO CONCLUDE THAT PRACTICES WHICH MAY HAVE OCCURRED A NUMBER OF YEARS AGO ARE RESPONSIBLE FOR THE LOW WHEAT PRICES SEEN TODAY. WE CAN FIND NO EVIDENCE OF THIS.

THERE IS, HOWEVER, INCENTIVES FOR THE CANADIAN WHEAT BOARD TO PRICE ITS GRAIN AT SLIGHT DISCOUNTS TO U.S. DOMESTIC PRICES. EXTENSIVE USE OF EXPORT SUBSIDIES BY THE EC AND U.S. HAVE DEPRESSED WORLD WHEAT PRICES TO LEVELS THAT ARE SUBSTANTIALLY BELOW DOMESTIC U.S. PRICES. THE CWB CAN NET $20 TO $25 PER TON MORE BY SELLING WHEAT INTO THE U.S. THAN THEY CAN BY SELLING INTO THE DEPRESSED WORLD MARKET. LACK OF PRICING TRANSPARENCY ALLOWS THE CWB TO HAVE STANDING PRICING ORDERS THAT ARE SLIGHTLY BELOW U.S. OFFERS. U.S. DOMESTIC MILLERS CLAIM, HOWEVER, THAT THE CWB DOES NOT UNDERBID DOMESTIC SELLERS, BUT RATHER, THEY SIMPLY ARE WILLING SELLERS AT ALMOST ANY U.S. BID PRICE SINCE IT IS A BETTER PRICE THAN THE CWB CAN GET IN THE HEAVILY SUBSIDIZED WORLD MARKETS.

(2) CANADIAN DURUM IMPORTS: WITHIN THE LEGAL CONFINES OF THE CANADIAN/U.S. FREE TRADE AGREEMENT, HOW CAN THE ISSUE OF CANADIAN DURUM IMPORT SURGES BE ALLEVIATED?

THE MONTANA FARM BUREAU FEDERATION WHOLEHEARTEDLY AGREES WITH

SENATOR DORGAN'S CONCERN ABOUT THE RAPID INCREASE IN DURUM IMPORTS FROM CANADA IN RECENT YEARS. WE ALSO AGREE WITH HIS PROPOSAL TO REQUIRE IMMEDIATE NEGOTIATIONS WITH CANADA REGARDING PRICE TRANSPARENCY, RAIL TRANSPORTATION SUBSIDIES AND THE ACQUISITION PRICE OF GRAIN, AS CALLED FOR IN THE U.S.-CANADA FREE TRADE AGREEMENT (FTA).

WE QUESTION, HOWEVER, WHETHER THE PRESIDENT SHOULD BE REQUIRED TO RETALIATE AGAINST CANADA WITHIN A PRESCRIBED PERIOD IF THE NEGOTIATIONS FAIL TO END THE UNFAIR CANADIAN PRACTICES. WE ARE CONCERNED THAT SUCH A MANDATED DEADLINE AND U.S. RESPONSE COULD TIE THE PRESIDENT'S HANDS AND, ULTIMATELY, RESULT IN CANADIAN RETALIATION AGAINST OTHER U.S. FARM EXPORTS. THESE ARE QUESTIONS THAT NEED TO BE CONSIDERED VERY CAREFULLY AND IN CLOSE CONSULTATION WITH THE U.S. TRADE REPRESENTATIVE.

THE U.S. CANADIAN FREE TRADE AGREEMENT ALLOWS EITHER COUNTRY TO IMPOSE COUNTERVAILING DUTIES AGAINST IMPORTS OF SUBSIDIZED COMMODITIES, IF THEY ARE CAUSING INJURY TO DOMESTIC PRODUCERS. WE BELIEVE IT IS CLEAR THAT CANADIAN DURUM IS SUBSIDIZED THROUGH CANADA'S TRANSPORTATION SUBSIDY PROGRAM, AS WELL AS BY THE CANADIAN WHEAT BOARD PRICING POLICIES. THE PROBLEM IS SHOWING THAT THE IMPORTS ARE HURTING U.S. PRODUCERS. UNDER THE COUNTERVAILING DUTY LAW, THE INJURY MUST BE TO THE ENTIRE U.S. WHEAT INDUSTRY, NOT JUST TO DURUM PRODUCERS OR TO PRODUCERS IN A GIVEN REGION. THE OTHER PROBLEM IS THAT CVD CASES ARE EXTREMELY EXPENSIVE. OTHER ALTERNATIVES WOULD LIKELY REQUIRE U.S. "COMPENSATION" IN OTHER PRODUCTS, IN OTHER WORDS, TO LIMIT IMPORTS OF DURUM, THE U.S. WOULD HAVE TO ALLOW MORE IMPORTS OF SOMETHING ELSE FROM CANADA. IF THIS WERE NOT POSSIBLE, CANADA COULD BE AUTHORIZED TO LIMIT ITS IMPORTS FROM THE U.S. OF ANOTHER COMMODITY TO "COMPENSATE" FOR ANY U.S. LIMIT ON CANADIAN DURUM. CLEARLY, THE PREFERRED OPTION WOULD BE TO DEMONSTRATE THAT CANADIAN DURUM IS BEING UNFAIRLY TRADED (THROUGH SUBSIDIES) SINCE THIS WOULD NOT REQUIRE U.S. COMPENSATION. HOWEVER, THIS IS A DIFFICULT AND COSTLY PROCESS.

(3) AREA GRAIN COOPERATIVES: HOW HAVE THEY BEEN AFFECTED BY CANADIAN IMPORTS?

I HAVE BEEN UNABLE TO COMPILE SUFFICIENT INFORMATION TO RESPOND TO THIS QUESTION.

(4) END-USE CERTIFICATE REQUIREMENT FOR U.S. GRAIN: SHOULD THE GOVERNMENT REQUIRE THIS AND WHY?

FARM BUREAU SUPPORTS ADOPTION BY THE UNITED STATES OF END-USE CERTIFICATES ON THE SAME COMMODITIES FOR WHICH SUCH CERTIFICATES ARE REQUIRED BY CANADA (WHEAT AND BARLEY). WE ARE CONCERNED, HOWEVER, ABOUT THE IMPLICATIONS OF REQUIRING END-USE CERTIFICATES ON OTHER COMMODITIES. COULD CANADA, FOR EXAMPLE, EXPAND ITS LIST OF COMMODITIES SUBJECT TO THE CERTIFICATES? IS IT ALSO POSSIBLE THAT THE IDEA OF END-USE CERTIFICATES COULD SPREAD TO THE EUROPEAN COMMUNITY, PERHAPS TO BE USED AGAINST IMPORTS FROM THE UNITED STATES OF WHEAT, SOYBEANS OR CORN GLUTEN FEED?

(5) CANADIAN WHEAT BOARD: DO YOU BELIEVE THE OPERATIONS AND PRACTICES OF THE CANADIAN WHEAT BOARD DISCRIMINATE AGAINST U.S. GRAIN?

AS A MONOPOLY TRADING ENTITY, THE CANADIAN WHEAT BOARD IS INCONSISTENT WITH FREE-MARKET PRINCIPLES. ITS MAIN OBJECTIVE IS TO MAXIMIZE RETURNS TO CANADIAN WHEAT AND BARLEY PRODUCERS. THIS MEANS GETTING THE BEST PRICE POSSIBLE FOR THESE CROPS, EXPANDING MARKETS, AND AVOIDING STOCK BUILD-UPS. CONSEQUENTLY, THE BOARD IS GOING TO SELL IN MARKETS WHERE IT CAN GET THE BEST PRICE, EVEN IF THAT IS IN THE U.S.'S OWN BACK YARD. THE PRICING PRACTICES ALLOW THE BOARD TO MAKE CONTRACTS THAT MEET OR BEAT OTHER OFFERS WITH LITTLE, IF ANY, TRANSPARENCY.

STRUCTURAL ASPECTS OF THE GRAIN MARKETING SYSTEMS IN THE U.S. AND CANADA HAVE BUILT-IN INCOMPATIBILITIES. THE STRUCTURE OF A NATIONAL GRAIN BOARD AND INTERNAL TRANSPORTATION SUBSIDIES PROVIDE MARKET POWER AND COMPETITIVE ADVANTAGES THAT CAN NOT BE ACHIEVED OR CAPTURED BY U.S. PRODUCERS. SIMILARLY, UNEQUAL MARKETING REQUIREMENTS SUCH AS MANDATORY GRAIN CLEANING IN CANADA WILL NEED TO BE ADDRESSED BY FTAs.

(6) THE NORTH AMERICAN FREE TRADE AGREEMENT: WHAT MUST THE U.S. GOVERNMENT DO TO PROTECT U.S. GRAIN FARMERS IN NEGOTIATING THIS AGREEMENT?

THE NAFTA IS APPARENTLY NOT GOING TO BE RE-OPENED OR RE-WRITTEN. ACCESS TO THE NEWLY OPENED MEXICAN MARKET FOR GRAINS, OILSEEDS AND

LIVESTOCK PRODUCTS COULD BE SUBSTANTIAL BY THE END OF THE TRANSITION PERIOD, ESPECIALLY GIVEN THE RAPIDLY GROWING MEXICAN POPULATION AND THE LIMITED RESOURCES AVAILABLE TO MEXICAN AGRICULTURE. THE U.S. AND CANADA WILL GAIN AN ENORMOUS PREFERENTIAL ADVANTAGE OVER OTHER AGRICULTURE EXPORTING COUNTRIES IN THE MEXICAN MARKET UNDER THE NAFTA. THE IMPORTANT THING WILL BE TO ENSURE THAT THE U.S. DOES NOT LOSE OUT TO CANADA AS A RESULT OF CANADIAN SUBSIDIES. THE U.S. MUST BE WILLING AND ABLE TO COUNTER SUCH SUBSIDIES, OR SUBSIDIES BY ANY OTHER COUNTRY, WITH ITS OWN, AND THE NAFTA MUST NOT PREVENT THAT. IT WILL BE HELPFUL TO HAVE A URUGUAY ROUND AGREEMENT THAT REDUCES EXPORT SUBSIDIES WORLDWIDE. IT WOULD ALSO BE HELPFUL TO HAVE A URUGUAY ROUND AGREEMENT THAT ABOLISHES OR REQUIRES TRANSPARENCY IN MARKETING BOARDS.

BUT U.S. FARM PROGRAMS AND EXPORT POLICIES MAY NOT BE COMPATIBLE WITH EXPANSION OF FREE-TRADE AGREEMENTS. EFFORTS TO REMOVE BARRIERS TO TRADE BETWEEN THE U.S. AND CANADA ARE AT ODDS WITH U.S. EFFORTS TO BUY (OR PROTECT) EXPORT MARKET SHARE WITH EEP FUNDS.

(7) THE EXPORT ENHANCEMENT PROGRAM: THE ADMINISTRATION IS CONSIDERING USING EEP AGAINST CANADA. DO YOU AGREE WITH THIS AND WHY?

FARM BUREAU'S POLICY IS TO SUPPORT THE USE OF EEP FOR ALL COMMODITIES IN ALL MARKETS WHERE THEY FACE UNFAIR FOREIGN COMPETITION. THEREFORE, WE SUPPORT THE USE OF EEP FOR WHEAT IN MARKETS WHERE WE HAVE LOST SALES TO SUBSIDIZED COMPETITION FROM CANADA. FARM BUREAU HELPED TO DEVELOP THIS PROGRAM IN 1985, THEN KNOWN AS BICEP, AND TO INCORPORATE IT INTO THE 1985 FARM BILL. ITS ORIGINAL PURPOSE WAS TO REDUCE U.S. GRAIN STOCKS AND RECAPTURE FOREIGN MARKETS. IT HELPED TO ACCOMPLISH BOTH OF THOSE OBJECTIVES. IT IS NOW USED MAINLY TO COUNTER FOREIGN SUBSIDIES.

TO COMBAT THE SUBSIDY PROGRAMS OF THE EC, USDA HAS USED EEP FUNDS TO SUBSIDIZE SALES OF U.S. WHEAT INTO WORLD EXPORT MARKETS. AT TIMES THESE MARKETS WERE OUTLETS FOR CANADIAN WHEAT EXPORT SALES. FOR EXAMPLE, RECENT SALES TO ALGERIA, MOROCCO AND TUNISIA (TRADITIONAL CANADIAN MARKETS) WERE ACCOMPANIED BY EEP SUBSIDIES RANGING UP TO $40/TON. THE CANADIAN WHEAT BOARD CAN EITHER MATCH THESE WORLD EXPORT PRICES OR LOOK FOR OTHER ALTERNATIVES. COMPARED TO AN $80/TON WORLD TRADE PRICE, A

U.S. DOMESTIC PRICE OF $110 TO $120 PER TON LOOKS ATTRACTIVE TO CWB AS AN OUTLET FOR CANADIAN WHEAT. THERE IS NO DOUBT THAT THE PROLIFERATION OF EXPORT SUBSIDY PROGRAMS HAS LED TO OPPORTUNITIES FOR OTHER EXPORT COUNTRIES SUCH AS CANADA TO SELL GRAIN INTO THE U.S.

AS MY COMMENTS DEMONSTRATE, THE COMPLEXITY OF THIS ISSUE MAKES RESOLUTION A MOST DEMANDING CHALLENGE. THE MONTANA FARM BUREAU COMMENDS YOU ALL FOR YOUR EFFORTS ON BEHALF OF GRAIN PRODUCERS IN MONTANA AND I THANK YOU AGAIN FOR THE OPPORTUNITY TO APPEAR BEFORE YOU.

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# WHY IMPORTING CANADIAN GRAIN MAKES $EN$E FOR THE U.S.

A Summary Of Testimony Presented To The

**House Subcommittee On General Commodities**

By:
**Jonathan F. Schlueter**
Executive Vice President
**Pacific Northwest Grain and Feed Association**

Also Testifying On Behalf Of The
**Montana Grain Elevator Association**

June 11, 1993
Great Falls Civic Center
Great Falls, Montana

Chairman Johnson, Congressman Williams, and subcommittee members, I am Jonathan Schlueter, Executive Vice President of Pacific Northwest Grain and Feed Association. I appreciate your invitation to testify here today, to address the issues in which you have expressed interest, and submit these comments on behalf of the commercial grain warehousing and processing industry of the Big Sky State and our allied members of the Montana Grain Elevators Association.

## Introduction

Pacific Northwest Grain and Feed Association is a non-profit, regional trade organization headquartered in Portland, Oregon, which represents 225 commercial grain elevator companies, animal feed and flour milling operations, seed processors, and grain exporting firms operating in the states of Oregon, Washington, Idaho and Montana. These member firms comprise a $2 billion industry, which accounts for more than 35% of the wheat that is exported annually from the U.S.; as well as 20% of the annual U.S. exports of feed grains; and 25% of the nation's production and consumption of commercial animal feeds.

## The Grain Industry's Support For The North American Free Trade Agreement

Stated simply, the members of Pacific Northwest Grain and Feed Association and the Montana Grain Elevator Association strongly support free trade among nations, and strive to facilitate trade relations with hungry consumers on 5 continents around the globe.

As market barriers fall under NAFTA, we are convinced that benefits to all three countries will become even more evident. Consumers will benefit from increased efficiencies and greater product variety and increased trade will lead to increased economic activity, job creation, and a higher standard of living for the citizens of all 3 nations.

The United States and Canada already have the largest amount of two-way trade between any pair of nations---with a total value of $168 billion annually. The United States has a positive balance of agricultural trade with Canada which amounted to $1.3 billion in calendar year 1991. While we are net importers of wheat, barley, and oats; we export significant quantities of corn, mixed feeds, soybeans, and soybean meal to Canada.

House Subcommittee On General Commodities
June 11, 1993
Page Two

The U.S. Department of Agriculture's analysis of the proposed NAFTA projects what we have long suspected---that the U.S. grains and oilseeds sector, with productive and efficient farmers and a comprehensive transportation and marketing infrastructure, will reap substantial benefits from NAFTA. For example, U.S. wheat exports to Mexico are projected to increase 40% over expected levels without NAFTA. These export gains will mean an additional $40 million in revenues to the U.S. wheat sector by the end of the NAFTA transition period.

It should be clear that NAFTA is of tremendous importance to the U.S. grain and oilseed sector. In an industry that must export about half its total production, NAFTA clears the way for significant increases in export activity. The resulting price gains will benefit farmers and agribusiness, in terms of both total revenue and of greater utilization of U.S. agricultural capacity, one of our greatest remaining competitive advantages over the rest of the world.

The Benefits Of NAFTA For The State of Montana

It is obvious from the comments already expressed here today, that the Free Trade pacts hold less appeal for border states like Montana, where the primary commodity exports--coal, wheat, cattle and timber products---are already in bountiful supply across the border, and find little market demand in a country of 25 million souls.

But it bears mention here, that for our nation, the North American Free Trade Agreement holds the promise of increasing agricultural markets on our own continent by more than $2 billion annually.

According to data compiled by the North American Trade Coalition, even in this resource rich state, Montana's net export trade with Canada creates more than 4,000 jobs, and has increased from $91 million in 1987 to $144 million in 1991, with agriculture among the top 8 product sectors leading the way north.

Are Imports of Canadian Grains Increasing?

The past year has created a number of unusual circumstances which have made it possible for Canadian wheat and barley shipment to enter Montana and neighboring states in volumes we have never seen before.

Adverse growing and harvest conditions plagued large areas of the Canadian grain production, resulting in a sizable volume of their crop being down-graded to "feed quality" definition, under the Canadian grain marketing standards. At the same time, the U.S. milling industry was faced with some of the lowest stocks of milling quality wheat in decades, creating high prices for available inventories.

But these factors and conditions were temporary and short-lived---on both sides of the border---and may not be repeated for some time.

Viewed in a broader perspective, the level of wheat and barley imports clearly have increased over the last several years, but still remain at modest levels. The level of imports from all sources have amounted to less than one percent of the total wheat, corn, and soybean supplies in recent years, with barley slightly higher.

By and large, imports have not been a significant part of total U.S. supplies. According to the National Grain Trades Council in 1992, imports amounted to only 6/10ths of one percent of the U.S. grain supply. In the case of wheat, the Council estimated that imports amounted to about 9/10ths of one percent of the U.S. grain supply.

The overriding reason behind increased import levels, however, lies in U.S. farm policy. U.S. farm programs are designed to stabilize and enhance the income of U.S. farmers, but they can have unintended side-effects. Unless the programs are crafted to be market neutral, they can encourage grain imports.

Export Enhancement Programs and Imported Grain

U.S. export assistance programs have played an important role in recent years as the U.S. has struggled to regain export market share and to address unfair trade practices by some competitor nations.

Roughly 75 percent of U.S. wheat exports are shipped with some form of export assistance, including P.L. 480 or GSM financing. The United States also has used export assistance when necessary to be competitive in the world market. In recent years, a major tool for some commodities has been the Export Enhancement Program (EEP).

EEP has contributed to a two-tiered pricing system for U.S. commodities -- a relatively high domestic price and a lower competitive price for foreign customers. This two-tiered price system has made the domestic U.S. market a high price island in a world of low commodity prices. One consequence of this policy is that relatively high U.S. prices can prove attractive for grain produced in foreign nations.

U.S. supply management programs also encourage grain imports. The theory behind supply management programs is that the United States can reduce supplies and prop up U.S. prices. The flaw in this theory is that the world market for food and other products and services has become more integrated, more global in nature.

Thus, when the United States cuts back on its production, competitors increase their production of agricultural goods and market them with greater ease. The first effect on U.S. farmers and U.S. agri-business is that American grains face increased competition in world markets. Indeed, that has been the experience since the early 1980's when large acreage reduction programs were reinstituted in the United States; U.S. performance in export markets has declined rather steadily. The second effect of tight supply management programs is that American farmers can face increased competition in domestic markets.

The combined impact of U.S. farm policies is to make our domestic markets more attractive to grain imports. Traditionally, wheat imports have been brought in when flour millers found it necessary to meet specific customer needs---for protein or gluten strength, as examples. The currently low U.S. stock levels have exacerbated this situation. There simply is not the variety of U.S. stocks now available to meet the demand for particular quality characteristics, and as a consequence, millers and other processors must obtain their specific product needs with available supplies.

Beyond this, however, is the price impact of low stocks. When coupled with the impact of export assistance programs, the result is an attractive U.S. market price in a world of depressed prices. As a consequence, we face a departure from the traditional pattern of wheat imports which were to meet a specific need. Now, some imports may enter because it is more profitable.

Looking at the situation between the United States and Canada, the issue becomes fairly simple. The United States has record low wheat stocks and relatively strong market prices. Canada has fairly ample stocks and sees attractive prices across the border. It is fundamental economics that is pulling Canadian grain into the United States.

House Subcommittee On General Commodities
June 11, 1993
Page Four

The Effects Of Canadian Grain Imports On The Grain Elevators Of Montana

During the past decade, the number of grain elevator companies and facilities operating in the State of Montana has dropped by more than 45%, and there is little indication that this downward trend will be reversing anytime soon. The reasons for this decline include the innovation of unit train shipping facilities, persistent drought conditions in wide areas of the state; extremely competitive marketing conditions; U.S. farm policies, and many others.

State-Licensed Public Warehouses In Montana

| | | | |
|---|---|---|---|
| 1985 | 174 | 1989 | 157 |
| 1986 | 176 | 1990 | 132 |
| 1987 | 191 | 1991 | 101 |
| 1988 | 167 | 1992 | 97 |

*Note: This list does not include federally-licensed warehouses, of which there were 44 operating in 1992. Source: MDOA*

But with the adoption and implementation of the North American Free Trade Agreement, we suddenly find trucks bearing Canadian plates, coming across the scales at Montana elevator facilities. Should these elevators accept their business? Absolutely! Here's why:

1. As licensed public warehousemen, operating in the State of Montana, the commercial warehousemen can not legally discriminate against producers or other depositors as long as there is space available in the warehouse to accommodate their commodities. Montana state law dictates that our members can't pick and choose between Canadian and U.S. customers, any more than they can select "good" farmers over producers of low-quality grain, as long as there is space.

   Chapter 80-4-523 of Montana's state law specifies that *"A warehouseman shall receive for storage, conditioning, handling or shipment without discrimination of any kind, so far as the capacity of his warehouse will permit, all agricultural commodities tendered him in the usual course of business in suitable condition for storage."* (emphasis added)

2. Contrary to popular belief, commercial public warehouse companies are not public utilities, that are limited to conducting their business activities within a specified community or geographical area. To the contrary, these companies are privately-owned and managed commercial business interests which exist to provide a variety of products and services to paying customers. Operating within the laws and regulations prescribed for them by state and federal jurisdictions, these companies operate under legal, moral, and social responsibility and obligation---to their patrons, stockholders, employees or ownership---to operate profitably

3. But after 5-6 years of persistent drought and adverse climatic conditions across many parts of this state, grain inventories available to many grain companies have become precious and scarce. Many grain companies depend on their handling and storage charges for basic survival, and are eager to work with whomever they can. For a number of reasons, these companies have paying customers lining up to do business; and the law and basic economics dictate that we welcome them with open doors!

4. After seven years of U.S. farm policies that have favored programs such as the Conservation Reserve Program (CRP), in which large areas of cropland was taken out of production, grain companies in many areas have seen their trade areas reduced by 25% and more. While these programs have been beneficial to the nation's producers, they have done precious little in maintaining the economic condition of our local grain elevators, ag-chem dealers, local gas pump, and other merchants in rural America.

There has been a great deal of attention focused in recent months on the subject of importing grain from Canada. Amidst all the rhetoric, it is essential to recognize that the owners and managers of commercial grain companies in this state, operate under legal obligation to the state, with a fiduciary responsibility to their patrons and stockholders, and a socio-political duty to our nation, to welcome this business with open doors!

So while Canadian grain deliveries may be relatively new, and an unwelcome development in this state, they represent a welcome source of business in our industry, here in Montana, and in neighboring states.

<u>End Use Certificates For Imported Grain</u>
Earlier this year, Senators Kent Conrad (D. North Dakota), Conrad Burns (R-Montana), and seven others, introduced Senate Bill 445 to the U.S. Senate, seeking to require end-use certificates for all grain imports from Canada (and other countries) entering the domestic grain marketing industry. This notion has proven to be a controversial issue, even within the commercial grain industry of the Pacific Northwest.

The members of Pacific Northwest Grain and Feed Association and the Montana Grain Elevator Association do not believe that end use certificates can succeed in slowing or encumbering grain imports from Canada or any other foreign origin. If enacted the bill would add yet another form to the mountain of paperwork that is already required of commercial grain companies. We submit that such a requirement will have negligible effect on stemming grain imports, as the proponents are hoping.

But as a matter of principle, the two organization must oppose end-use certificates for what what they are---a thinly-veiled attempt to reconstruct the kinds of trade barriers which are being eliminated daily in nearly every other part of the world. Our organizations will oppose the end-use certificate measure on the basis that, if it does not breech the specific terms of the Canadian-U.S. and North American Free Trade Agreements, it most certainly violates the spirit of these landmark treaties.

The notion of imposing end use certificates on Canadian grain shipments runs directly contrary to the stated policy objectives of our national leadership in both countries. It is an affront to the best interests of the people of both countries---political, social and economic---which practically invites retaliatory measures by our counterparts and brethren to the North.

<u>More Direct Benefits To The Grain Producers Of Montana</u>
1. Imports of Canadian grain into Montana grain elevator facilities breathes new life into an industry which has been largely abandoned by U.S. agricultural policy makers during the past decade. Often the largest business center in the community, grain elevators contribute to the local employment and tax bases, with corresponding benefit to the main-street businesses, and ultimately, to grain producers on both sides of the border.

2. Montana producers have a well-deserved reputation as producers of consistently high quality milling wheat. The imports of Canadian grain have created short term pains, but offer Montana grain producers the promise of long-term gains, by increasing demand for high quality milling wheat---both domestically and abroad.

The members of Pacific Northwest Grain and Feed Association and Montana Grain Elevator Association welcome this opportunity to testify before this committee to present these views. We are eager to assist committee members and staff, whether collectively or individually, with additional information and data. Please contact our staff at the address listed above.

# STATEMENT OF THE MONTANA GRAIN GROWERS ASSN to the HOUSE AGRICULTURE COMMITTEE June 11, 1993

Congressman Williams and honorable members of the House Agriculure Committee, thank you for coming to Montana to listen to concerns of US farmers about Canadian grain, CFTA, NAFTA and farm policy in general. My name is Chuck Merja. I farm with my two brothers and father just 25 miles west of here. I am immediate past president of the Montana Grain Growers Assn, a producer organization with about 3000 members.

I think that it is important that I point out that we have worked very hard in support of GATT and NAFTA as well as to maintain fast track authority for both. We did so because we believe that trade is important to the survival of our industry, as well as the continued "shrinking of the world" through continued interactions brought about by trade. In fact we endured significant cuts to commodity programs on the promise of tough trade negotiations that would help open markets and create a level playing field. Those cuts were premature in that they provided no incentive for our competitors to get serious about trade negotiations. Instead they provided strong incentives for our competitors to use whatever stall tactics were needed while waiting for our government to further cut domestic programs--that tactic worked very well as we are currently watching both the House and Senate Ag Committees debate how they are going to further cut ag supports. When will you come to understand that the ALL of our competitors are sitting around knowing that they don't have to bother to negotiate seriously because the US government (Congress and the Administration) will unilaterally disarm American agriculture if they just wait long enough?

I am on this diatribe because even though we supported NAFTA and GATT, we sent a letter to USTR Hills in mid summer of 1992 expressing some specific concerns about the CFTA and asked that they be addressed in the soon-to-be-completed NAFTA. Specifically, we requested that Canadian price transparency and rail subsidies be addressed, so as to fix some of the problems we had experienced with the CFTA. I enclose a copy of the reply that we got well after the negotiations were announced to have been "successfully completed". The fourth paragraph of that letter says in part, "we were unable to further address the issues of Canadian price transparency and Canadian rail subsidies. Canada simply refused to move on these issues..." The man that wrote these words was and is the

Deputy USTR--who is supposed to be protecting our interests, and he capitulated to a "refusal to negotiate"!!

Now I'm not a world class negotiator, but I darn well know what it means when one side in a negotiation simply refuses to move on an issue. It means they think they got a heck of a good deal and the only way to go is DOWN! They wanted to maintain the coupes that they had garnered in the CFTA and our people let them! This is NOT the kind of negotiating that we had in mind when we went to bat for fast track on GATT or NAFTA. No one told us that "free trade" meant that we just give our markets away for free!!! Had we had that bit of information our organization might have reacted differently to fast track for GATT and NAFTA as well as the agreements themselves.

The field is not level between Canada and the US. We US farmers are competing against farmers whose government subsidizes freight (and is looking to extend freight subsidies into the US, as Herb Karst mentioned), whose selling pool goes into markets that we have developed and gives standing offers under ANY US price quote, whose selling pool doesn't have to profit on each sale and thereby can easily gain entry into domestic or international markets where our farmers or private companies can not venture, by using price, quality or delivery terms as enticements. We are literally giving away our industry by allowing this to happen.

So what are some specific problems and some specific remedies?

First and foremost, Congress and the Administration need to send a strong message to our farmers and our competitors. We will no longer unilaterally disarm. We will no longer have acreage set aside programs that simply move the production to another part of the world. We will allow our producers to produce and use the tools available, plus any others that we need to come up with to see that what our farmers produce gets SOLD!

We will not be the supplier of last resort. We will aggressively seek to expand market share and we will not sit by and allow predatory or protectionist actions to go unchallenged.

We will keep our farm economy strong so that we can negotiate from strength.

We will not put up with a "refusal to negotiate."

I know these sound harsh, but we need to provide our competitors an incentive to come to the table and we are not doing that right now by unilaterally disarming.

The effects of the large increase in Canadian grain are important nationally--not just locally. (chart for picture of increases) For example:

- If we really import 72 million bushels of wheat from Canada this year without a commensurate increase in OUR sales, we will build stocks (USDA currently projects our stocks will go up 28.9%, while the EC will go down 11.4% and

Canada will go down 16.4%!). Price elasticity estimates per 100 million bushels of ending stocks from FAPRI and USDA range from 12 to 25 cents. Using 15 cents and 1.5 billion program bushels, we could see lost revenue and increased deficiency payments to producers on the order of $225 million/yr just for wheat!! Over 5 years thats $1.125 billion!

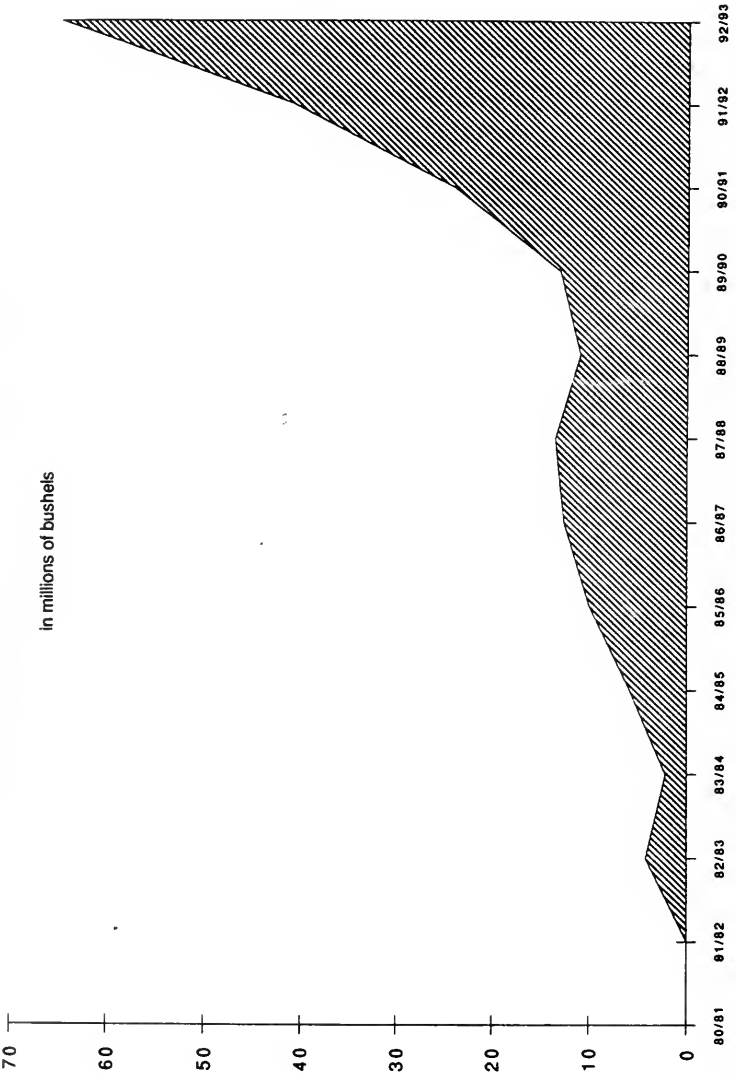
- We will end up exporting Canadian wheat to at least our cash markets of Japan and Taiwan--thereby displacing US wheat in high quality cash markets.
- US wheat growers have already given up trying to compete with the CWB in the durum market which used to be very lucrative for our growers. We have the lowest US plantings in 35 years, in large part due to the CWB's pricing practices. These acres have moved to spring and winter wheats, thereby putting pressure on those markets. The same thing is happening with malt barley markets--even faster than it did in the durum market. Under NAFTA there are quotas for US and Canadian malt barley into Mexico. But if Canadian barley is malted in the US and then sold into Mexico, it counts against our quotas!! What incentive is there to a maltster to buy US malt barley? Anheuser-Busch can just write one contract with the CWB for what they need and forget about all the grower issues that they have to deal with when they do producer contracts. Plus they will be able to buy that barley a whole lot cheaper than if they had to deal with my neighbors on the Fairfield bench.
- There is the distinct possiblity that Canadian wheat made it into EEP channels, which is illegal and could jeopardize the program.

We have put together a working paper with regard to what is needed to help cure the Canadian situation. I will highlight the important points and if there are questions later, I would be happy to address them more fully.

- Canadian price transparency must be established.
- Transportation subsidies, administrative costs of the CWB and all other subsidies of the CWB must be included in calculation of the acquisition price.
- End-use Certificates must be utilized on all grains being imported into the US.
- We must be allowed to use EEP (and other tools if necessary) to Mexico, Indonesia and/or other countries where the CWB has made aggressive advances.
- American producers must be given access to Canadian markets.
- Speedier trade dispute resolution must be put in place.
- Extreme care must be taken when rewriting the USDA budget during any budget reconciliation process. Don't be counterproductive to our trade posture.

(Attachments follow:)

CANADIAN WHEAT EXPORTS TO THE UNITED STATES




Source: Canadian Grains Commission 92/93 USDA Projection

Suggestions of the Montana Grain Growers Association in response
to the surge of Canadian Wheat and Barley Imports

Past trading practices of the Canadian Wheat Board (CWB) and recent import surges of Canadian wheat and barley into the U.S. lead us to believe that several things must happen before U.S. producers can be assured that the CWB is not violating the U.S./Canadian FTA or the NAFTA.

1. Some sort of price transparency must be established. Under the terms of both the CFTA and the NAFTA, participating countries cannot sell grains into the other country at less than the acquisition price. We cannot monitor the compliance of this provision unless the CWB is forced to disclose the price at which they are selling into either the U.S. or Mexico. Currently, the CWB is free to sell into the U.S. at prices lower than what they pay their producers because there is no way to determine actual contract prices.

2. Transportation subsidies, administrative costs of the CWB and all other subsidies of the CWB must be included in calculation of the acquisition price. Under the recent durum ruling, it was determined that neither the transportation subsidy Canadian producers receive nor the administrative costs of the CWB are to be considered in the acquisition cost. This was a terrible mistake our CFTA negotiators made and amounts to hundreds of millions of dollars of subsidies that are not counted in the acquisition price.

3. End-use Certificates must be utilized on all grains being imported into the U.S. Our law prohibits the use of any U.S. export promotion programs on grain not grown in the U.S. End-use certificates, while not a "cure all", will help assure that Canadian grains are not being exported under our EEP and other export promotion programs.

4. We must be allowed to target Mexico with the Export Enhancement Program. If Canada continues to use underhanded pricing practices to gain market share in Mexico, we need a tool to fight back and to bring them to the bargaining table.

5. American producers must be given the same access to Canadian markets that Canadian producers enjoy in U.S. markets. Currently U.S. farmers have not been allowed to sell barley into Canadian markets. There may be isolated markets in Canada that Montana and other Northern State producers could utilize. To this point, the CWB has denied access to those markets by U.S. producers.

6. Be careful of the direction budget deficit reduction measures for USDA take. Using additional flex acres, higher ARP's and other production/deficiency limiting measures are counterproductive to getting Canada, the EC and other competing countries to the bargaining table. The U.S. cannot unilaterally disarm and expect our competitors to respect our position. We must use an aggressive export posture to reduce stocks, strengthen prices and thereby reduce deficiency price exposure. It is estimated that for every 100 million bushel reduction in wheat ending stocks, prices will increase by about 15 cents per bushel. That means that on 1.5 billion wheat payment bushels, the budget could be reduced by $225 million per year for each 100 million bushel reduction in ending stocks.

The Effect of Canadian Imports On U.S. Small Grain Markets & Policy

It should be noted that while the impact on northern tier states that compete directly with Canadian grains is immediate and emotional, the greater impact is on the entire grain Industry in the U.S. In fact, in one sense northern tier states do gain some benefits from this trade. Increased grain volume and higher margins have helped improve the profit margins of many of our local elevators in Montana, Minnesota, North Dakota, Idaho and Washington.

How is a Kansas wheat producer affected by Canadian grain imports?

1.) Lower prices/Higher Deficiency Payments. It is estimated by FAPRI that for every 100 million bushels of increased carryover stocks that the price of wheat is reduced by 12 to 14 cents. USDA has used 20 to 25 cents for each 100 million bushels. This year the Canadians are expected to import some 72 million bushels of wheat into the U.S. If these estimates hold up, that would mean that wheat prices could be reduced as much as 15 cents. On 1.5 billion program payment bushels of wheat, this would mean $225 million in lost revenue to producers or $225 million in additional deficiency payments.

2.) Lost exports. Imported Canadian grain is being exported as U.S. grain. Some of the wheat that has been moving into Montana this year has been blended with Montana wheat that was exported to Japan. Currently Japan purchases approximately 60% of its wheat from the U.S. If some of this wheat is Canadian wheat that is counted against U.S. quotas (informal), that means less exports for U.S. growers. This is also happening with other U.S. cash customers such as Korea and Taiwan.

Mexico should be a prime market for Kansas and other midwestern/southern wheat producers. However, this past year Canada captured 75% of that market (the market share that the U.S. has traditionally enjoyed). It is hard to imagine how someone 2500 miles further away from Mexico could capture that kind of market share unless they were using illegal pricing practices. Unless we can fix some trade problems it is unlikely that Canada will give up it's share of the Mexican market.

3.) More Competition. Canadian durum imports and the Canadian Wheat Boards practice of dumping durum on traditional U.S. markets has caused the loss of durum markets. Canada now imports into the U.S. 25% of our domestic durum consumption. In 1980, Montana farmers planted 500,000 acres of durum wheat. In 1991 only 180,000 acres of durum were planted. Those acres are now being planted to spring and winter wheats--wheats that compete directly with Kansas producers. The same is about to happen in malt barley production. As major contractors, such as Anheuser Busch drop malt barley contracts with U.S. producers and give them to Canadian producers, another grain industry could go by the wayside. Again, these acres will be converted to raising spring and winter wheat in competition with Kansas growers.

4.) Loss of Quality and Protein Markets. With the exception of the large amount of sprout and frost damaged wheat that entered the U.S. from Canada this past year, most Canadian imports are high protein spring wheat and high quality durum. These grains supply quality and protein to the U.S. domestic market. Kansas wheat is noted for its high protein levels and is used in the U.S. milling and baking industry.

5.) Lost credibility. It is also possible that some of this imported Canadian grain is making it's way into export channels destined for EEP or other U.S. government concessional sales. While it is hard to believe any company would take the risk to allow this to happen, it continues to be a question that Congress can use to discredit EEP sales.

6.) Higher Taxes. All of these things contribute to higher carryovers and higher deficiency payments. Those costs are counterproductive to U.S. ag policy and cause higher program costs which discredit farmers and cause higher taxes.

Prepared by the Montana Grain Growers Association

DEPUTY UNITED STATES TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON, D.C. 20506

SEP 1 1992

Mr. Chuck Merja
President
Montana Grain Growers Association
P.O. Box 1165
Great Falls, Montana 59403

Dear Mr. Merja:

Ambassador Hills asked me to respond to your letter of July 23, in which you expressed your concerns about the North American Free Trade Agreement (NAFTA) negotiations. In particular, you had hoped that the NAFTA would address Canadian price transparency and Canadian rail subsidies.

As you probably know, President Bush announced on August 12 that negotiations aimed at creating a North American Free Trade Agreement have been successfully completed. The NAFTA sets out separate bilateral undertakings on cross-border trade in agricultural products, one between Canada and Mexico, and the other between Mexico and the United States. Generally, the rules of the U.S.-Canada Free-Trade Agreement (FTA) on tariff and non-tariff barriers will continue to apply to agricultural trade between Canada and the United States.

With respect to its import barriers on wheat, Mexico will immediately eliminate its import licensing requirement as soon as the NAFTA takes effect. Mexico will apply a 15-percent duty initially, but that duty will be phased out over a 10-year period. By the end of a decade, all trade in wheat and wheat products within the North American region will be free of tariffs and non-tariff barriers.

In the course of negotiating the NAFTA, we were unable to further address the issues of Canadian price transparency and Canadian rail subsidies. Canada simply refused to move on these issues, citing the fact that these matters are currently the subject of a formal bilateral dispute under the terms of the U.S.-Canada Free-Trade Agreement.

You may be aware that we are engaged in a bilateral FTA panel process with Canada with regard to the sale of wheat into the United States. We have agreed that a panel will examine the meaning of Article 701.3 of the FTA, which requires that Canada (and the Canadian Wheat Board) not sell wheat into the United States below acquisition, storage and handling, and other costs. As a part of its examination, the panel will determine whether the transportation subsidies provided under the Western Grain Transportation Act (and other transportation costs paid by the Government of Canada) should be included in the cost calculation. We have also asked the panel to recommend that Canada provide

Mr. Chuck Merja
Page Two

data on an ongoing basis so that we can verify compliance with the provisions of the FTA. We expect to have a final panel report by December 7, 1992.

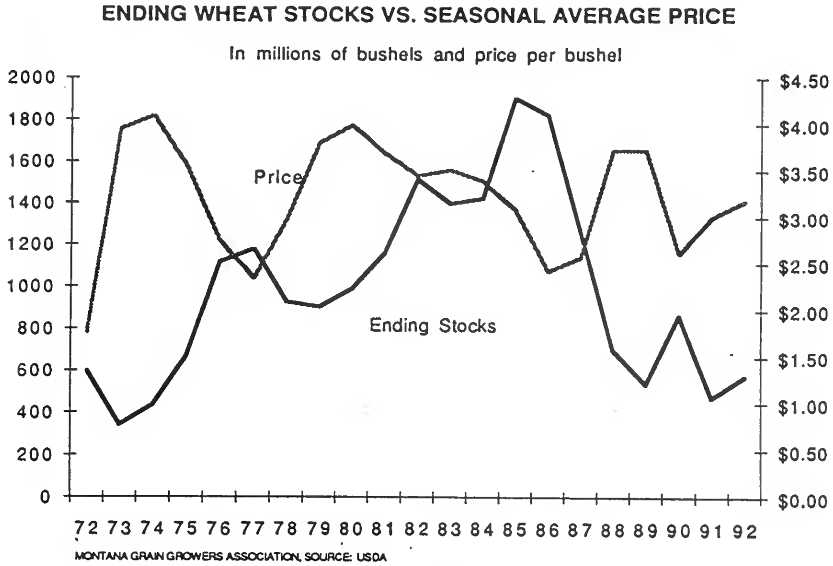
The NAFTA does contain a provision on export subsidies. Given Canada's reluctance to deal with the price transparency issue, our objective in drafting language on export subsidies in the NAFTA was to maintain our ability to match Canadian subsidies in the Mexican market, or to meet subsidized competition from outside the NAFTA region into the Mexican market. The language that was ultimately agreed to on export subsidies will enable us to continue to protect our interests and to meet subsidized competition, when necessary, in our fastest growing agricultural export market.

Sincerely,

for Julius L. Katz

JLK:mlh

It isn't what we don't produce; it's what we don't sell that matters to the market!

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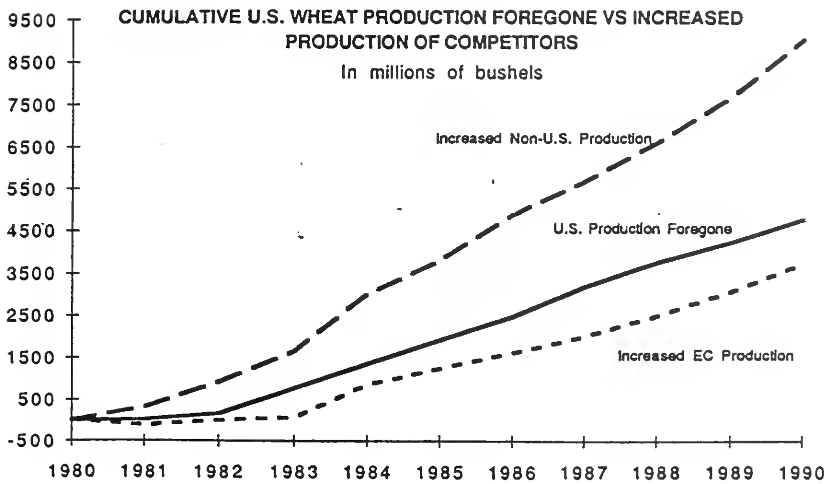

Conrad Johnson

The following is the testimony I gave in Gt. Falls regarding the movement of Canadian wheat into the U.S. markets.

Given the purpose of this meeting I have what some of you will regard as good news and what some of you will regard as bad news. The good news will be that I was born in Havre and graduated from Montana State University. The bad news will be that I've been a Canadian grain farmer for 17 years.

We should first reflect on what the Canadian Wheat Board is and how it works. It is a total monopoly. In a perfect world that should be a perfect system to market our grain. As we all know, humans sometimes screw up perfect things. They have covered us with a security blanket and made an industry of very poor marketers. We don't ask enough tough questions about them because we don't understand what's going on.

The vast majority of grain coming down into the U.S. was Wheat Board grain either sold by them or through their accredited exporters. If you think it's tough for an American producer to get grain into Canada, try as a Canadian producer to get grain out of Canada. The Wheat Board can sell so competitively into the northern U.S. with trucking programs because they can use their accredited exporters. We give them a 64 cent per bushel basis right out of our pockets before the grain even leaves the Canadian elevator.

Example: I haul in a 1500 bushel load and sell it to my local elevator company. Picking that load up right behind me is a semi that will haul it to the states for the Board, with the elevator company acting as the accredited exporter. The company will charge me 22 cents per bushel to run my wheat up the leg and back down into the other truck. I will be

charged 7 cents per bushel cleaning charges as all Canadian grain in export position is usually cleaned. This grain isn't cleaned, but to supposedly make it fair in the whole system, I have to pay cleaning charges. I'm charged 35 cents per bushel freight charges as we all pay freight to the terminal charges. This grain doesn't go to the coast, but we pay the freight anyway as that is supposed to be fair to everyone. With a free 64 cent basis, who couldn't market competitively.

Regarding trade, both countries came to the table with our suitcase of sins. While both parties should have mutual interests and goals, an action-reaction scenario seems to prevail. We can't lose sight of our goal to get the Europeans out of the export subsidy business. The time seems to be now to put pressure on them. Germany is out of money, France is bending on some issues.. Can't we as neighbors get together, form mutual ideas, goals, go forward with them, arm in arm, not one behind the other taking turns kicking each other in the butt.

I recently attended the Canadian International Grains Institute Conference. This put Canadians and American farm leaders together, sat them down, taught them each others systems. Major American farm organizations, house agricultural committees, and American government agencies were represented. The first day there was some animosity, the second day understanding and by the third day we understood most of the problems we were both having. Dina Butcher, Executive Director of North Dakota Grain Growers, and North Dakota Duram Growers will testify in front of you in Fargo later today, and her perspective changed dramatically in the 3 days she spent with us in Winnipeg. One example of working things out was during one of the sessions we got to meet with Charlie Mayer, Canada's Ag. Minister. End-user certificates were

brought up by the American delegation. Mr. Mayer stated that if they were a problem, let's get rid of them. If you would have asked the Canadian Wheat Board a 1000 times, the answer would always have been no, but these types of issues can be worked out if the right parties are involved.

From an American producers' perspective, E.E.P. probably seems like a good deal. Your government stood up and protected the producers, took on the Europeans and protected the export markets. As a Canadian, the program has totally devastated our industry. You E.E.P. a market, the Wheat Board reacts, more Canadian farmers go broke. E.E.P.ing Mexico wouldn't do a thing to the Board. They will go in and retain their market share , but it will be done out of our pockets. There are no winners in this scenario. Head to head battles with the Wheat Board only results in more Canadian farmers going broke.

With no functional support program in Saskatchewan, my return for last years crop will be around $1.60 / U.S. How many U.S. producers could survive on that? Please, don't force it lower. There is getting to be more and more political will to make changes into the Board's policies. The Continental Barley Market and changing the method of payment for the Crow benefit are examples of that. Please use political pressure and not head to head battles when challenging the Board. If there are screw-ups, prove them, document them, bring them forward to the Canadian Grains Council, the Minister's office or one of the M.L.A.s. Don't go head to head with them, because we the producer always end up paying for the battle.

To be fair, we all have to give the Board credit for trying to do a job in a heavily subsidized export market, and it can't be an easy job.

In closing, as neighbors can't we sit down in some form of producer based group and work out our differences? Many of us aren't proud of

some of the actions of the Canadian Wheat Board, while I would hope many of you aren't proud of the devastation that E.E.P. has had on our industry. Continuing actions based directly at the Canadian Wheat Board will only result in the total collapse of our Canadian grain industry. Who's the winner then?

I believe we'd cut a much wider swath by linking arms and going forth together.

Thank you for your time.

Conrad Johnson
Box 29
Bracken, Saskatchewan Canada
306-293-2902

FEED FAX THIS END

FAX

To: DAINA HODGES
Dept.: Court Reporters
Fax No.:
No. of Pages: 4
From: CON. JOHNSON
Date: JUNE 15, 1993
Company:
Fax No.:
Comments: CONGRESSIONAL HEARINGS

Canadian Embassy — Ambassade du Canada

501 Pennsylvania Avenue, N.W.
Washington, D.C. 20001

June 8, 1993

Tim Johnson, Chairman
U.S. House of Representatives
Committee on Agriculture
Subcommittee on General Farm Commodities
Room 1301 Longworth House Office Bldgn
Washington, D.C. 20515

Dear Chairman Johnson,

The Canadian Wheat Board has forwarded to the Government of Canada your invitation to appear in front of the Subcommittee on General Farm Commodities on June 11 in Grand Falls, Montana. As a matter of practice, federal officials do not testify in front of U.S. House or Senate Committees. Nevertheless, on behalf of the Government of Canada, I would like to submit the attached information on bilateral trade in grain and grain products between Canada and the U.S. to be included as part of the record of the hearing.

Yours sincerely,

Céline Duguay

Céline Duguay
First Secretary (Agriculture)

attachment

c.c. U.S. House of Representatives
Committee on Agriculture
Members of the General Farm Commodities Subcommittee

## BILATERAL GRAIN TRADE - FACTS AND FIGURES

### DURUM PRODUCTION IN THE UNITED STATES AND CANADA

- Over the past decade, U.S. durum wheat production has varied widely, from a low of 45 million bushels in 1988/89 (which was a drought year) to a high of 122 million bushels in 1990/91.

- Annual durum production has averaged 104 million bushels since the 1988/89 drought. 1992/93 U.S. durum production (97.2 million bushels) is in line with the ten-year annual average U.S. production since 1983/84.

- U.S. acreage reduction programs have not led to a decline in durum production. U.S. durum acreage fluctuates greatly from year to year; up 25% in 1989/90 over 1988/89 and down 23% in 1992/93 from 1991/92. Since 1981, total U.S. wheat acreage has fluctuated from a low of 53 million acres to a high of over 80 million acres. Since 1989/90 rising yields have offset any decline in harvested U.S. durum acreage.

- Canadian production is more stable because planting decisions are based on market and agronomic (i.e.moisture levels) conditions, whereas U.S. policies are subject to change annually, albeit within ranges.

- 1992/93 Canadian durum production was at its lowest point since the 1988/89 drought, and at 3.1 million tonnes (113 million bushels) was slightly below the ten-year average.

- Acreage devoted to wheat production in Canada has been relatively stable since 1981, averaging 33 million acres over the past 5 years.

- Canadian durum wheat areas are semi-arid; much of the area cannot be cropped in successive years. Over 22 million acres are left uncropped (i.e., in summerfallow) annually.

- In contrast, U.S producers in north central states have more opportunity to diversify into crops other than durum wheat, e.g., other spring wheat, oilseeds. The 1990 U.S. Farm Bill encouraged diversification into more specialized crops such as sunflowers. U.S. farmers also benefit from subsidized irrigation schemes allowing crops to be grown that cannot be produced in Canada because of lack of moisture.

### U.S. IMPORTS FROM CANADA

- The trend of increasing U.S. imports of Canadian durum began in 1986/87 and coincided with the implementation of

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aggressive use of the Export Enhancement Program (EEP) for durum wheat. The Canadian share of the U.S. domestic durum supply has risen since the EEP came into effect. This trend had already begun in the 1986/87 Canadian crop year with Canadian exports of 61,524 tonnes. In that same year, U.S. durum wheat exports under EEP increased from 50,000 tonnes to 1.27 million tonnes. Successive years of drought (1987/88 and 1988/89) in the United States coincided with this higher level of subsidized U.S. durum exports.

- The 1990 International Trade Commission (ITC) report confirmed the fact that U.S. subsidized exports in 1988 and 1989 left U.S. millers short of required quality durum stocks. U.S. millers quickly became acquainted with the consistently reliable high-quality wheat that Canada provides.

- The ITC noted that "The durum wheat market is extremely quality conscious. Sales of Canadian durum to U.S. millers were due to factors other than price, such as quality, cleanliness and forward purchasing contracts. The Canadian marketing system is able to supply a larger quantity of higher grade product per unit of durum." This applies to world markets as well as the domestic U.S. market.

ROLE OF THE CANADIAN WHEAT BOARD

- The role of the Canadian Wheat Board is to act as a marketing agency for grains grown in the Prairie provinces for export and for human consumption in Canada. Its mandate is to sell the most grain at the most favourable prices for Canadian producers.

- Canadian grain exports to the United States are the result of competitive and fair pricing by the Canadian Wheat Board and of Canada's reputation for a consistently high quality product.

- The 1990 ITC study on conditions of competition in the durum wheat industries confirmed that, on average, Canadian prices in the U.S. market were slightly higher than prices charged by domestic U.S. suppliers; i.e., they were not undercutting the U.S. market.

- The audit process recommended by the FTA durum panel will provide evidence on whether Canada has complied with Article 701.3 on sales of durum wheat to the United States.

- The ITC report also concluded that U.S. export subsidies under the Export Enhancement Program drew supplies out of

.../3

the United States, helping to depress prices in third country markets while adding upward pressure on domestic U.S. prices. This makes the United States a high-price market, attractive to commercially-minded exporters.

- Deficits in the Canadian Wheat Board pool accounts have been rare: only three in the wheat pool and one in the durum pool. The 1990/91 pool deficits for wheat and durum wheat were caused by a sudden unanticipated decline in world prices due largely to the accelerated aggressive use of export subsidies in world markets. This was accentuated by record world wheat production which was unforeseen at the time initial prices were set in April 1990.

- Measures have since been taken to avoid a repetition of such deficits. Initial payments are now announced in mid-to-late July, just prior to the beginning of the crop year. This substantially increases the accuracy of available market information.

- However, U.S. policies continue to adversely affect world grain prices. This is confirmed by an April 1993 ITC report which found that important factors contributing to changes in world wheat prices were the decline in the U.S. loan rate for wheat and the Export Enhancement Program.

- Contract prices in the international grain trade are not released by either buyers or sellers for reasons of commercial confidentiality. This is the case both in Canada and the United States.

WESTERN GRAIN TRANSPORTATION ACT (WGTA)

- The WGTA raises prices to producers in surplus production regions of the prairies; it does not reduce prices in export markets.

- The FTA durum panel report confirmed that subsidies paid by the WGTA through Thunder Bay are domestic subsidies since they are not contingent on export.

- FTA Article 703.5 already disallows WGTA subsidies on Canadian agricultural exports to the United States through west coast ports.

- Domestic subsidies such as the WGTA are being addressed in the Uruguay Round of the GATT.

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CANADA-UNITED STATES TRADE IN AGRICULTURAL PRODUCTS

- In 1992, bilateral trade in all agricultural products totalled almost Cdn $10.5 billion, a 50% rise from 1988's level of less than Cdn $7 billion. This trade is in balance, with exports from both countries exceeding Cdn $5 billion.

- 1992 trade in grains, oilseeds and their products exceeded Cdn $2.5 billion, a $1 billion increase from 1988 levels. This trade was also in balance, with Canadian exports to the United States at roughly $1.3 billion and U.S. exports to Canada exceeding $1.1 billion.

- The value of Canadian grains exports to the United States in 1992 was Cdn $395 million, an increase of 155% since 1988. Over the same period, U.S. exports of grain products, including pasta, to Canada have risen to Cdn $352 million, an increase of 146%.

- Canadian imports of animal feeds from the United States have also shown a marked increase in five years, rising 65% to Cdn $306 million in 1992.

- The value of Canadian imports of U.S. pasta products (originating in Ohio, Minnesota, etc.) has risen almost 6 times between 1988 and 1992 to exceed $60 million. North Dakota is also a significant supplier of pasta to Canada with 1992 exports at $2.5 million, a 590% increase since 1988.

- 1991 Canadian imports of U.S. pasta products almost doubled in value from the previous year, while exports of Canadian durum to the United States remained static. Statistics for 1992 indicate an increase in trade in both directions for both pasta and durum.

- Some of the states that complain about Canadian exports of durum wheat depend heavily on the Canadian market for their own overall exports. For example, in 1990, almost two-thirds of North Dakota's exports, and almost one-half of Montana's, went to Canada.

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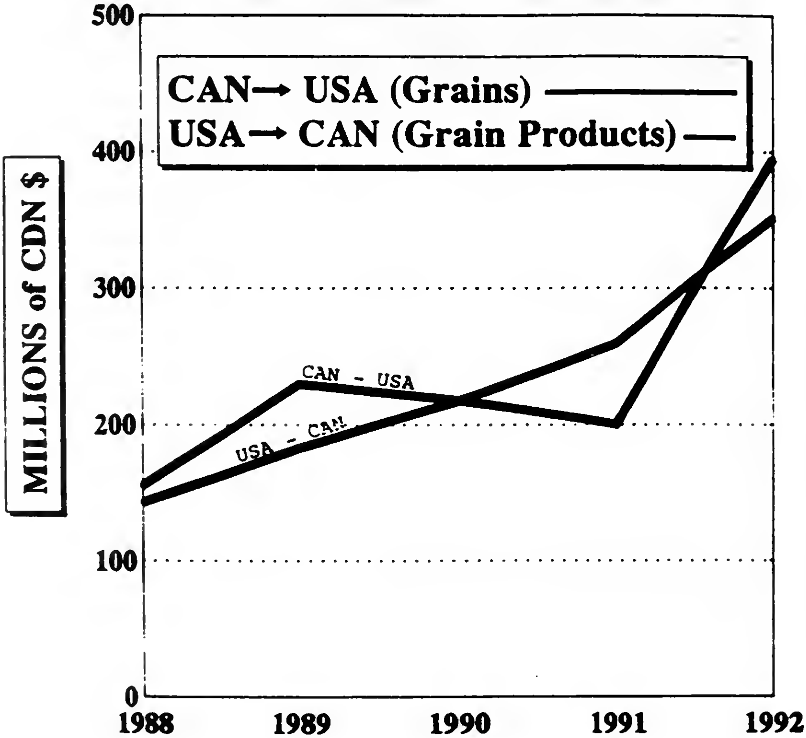
GENERAL

- We have a vigorous, mutually beneficial balanced trade in agricultural products, including grain and grain products, between Canada and the United States.

- This trade has been growing in recent years in both directions. This growth is attributable to a number of factors. None of them, however, point to unfair trade practices.

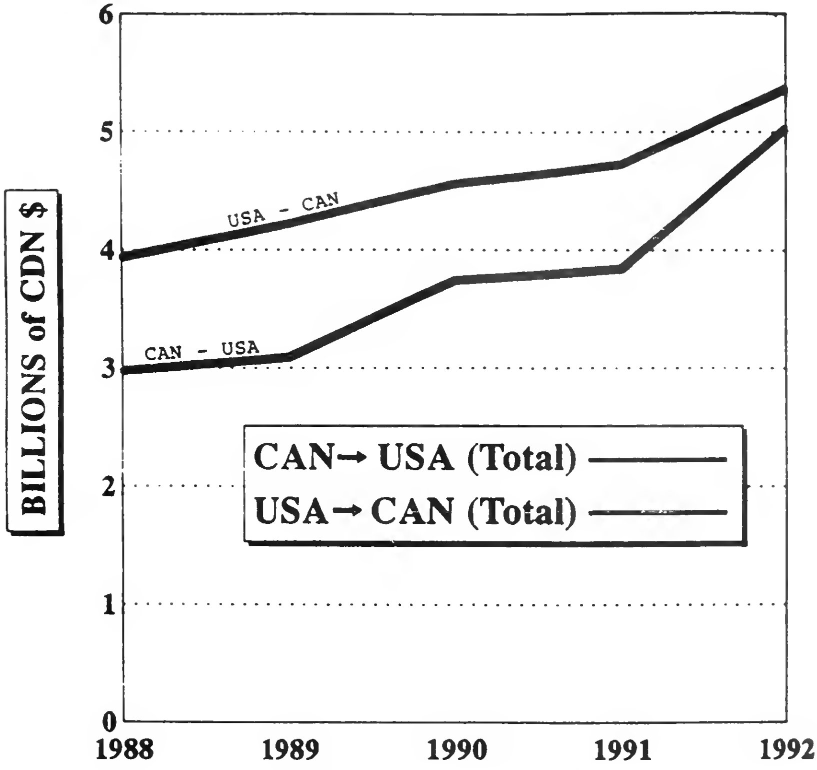
- It is not possible to characterize some parts of this growing trade as "good" and some parts as "bad". An expansion of trade is precisely what was intended under the Canada-U.S. Free Trade Agreement (FTA).

# Canada-USA Trade in Grains and in Grain Products
## (EXPORTS)




SOURCE: Statistics Canada

# Canada-USA
# Agricultural Trade - All Products
## (EXPORTS)




SOURCE: Statistics Canada

PRAIRIE POOLS INC.

Alberta Pool • Saskatchewan Wheat Pool • Manitoba Pool Elevators

June 7, 1993

Mr. Tim Johnson
Chairman
Subcommittee on General Farm Commodities
Committee on Agriculture
U.S. House of Representatives
Room 1301, Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Johnson,

On behalf of the Alberta Wheat Pool, Saskatchewan Wheat Pool and Manitoba Pool Elevators I would like to thank you for the invitations to participate in your Subcommittee's hearings on Friday, June 11, 1993. The invitations were referred to Prairie Pools Inc. (PPI) which is the policy arm of the three Prairie wheat Pool cooperatives.

Unfortunately, PPI will not be able to participate in your hearings, however we would pleased to provide any information, or respond to any questions you or other members of your Subcommittee may have.

PPI would like to express to the Subcommittee our concerns over the effects of the Export Enhancement Program on prices which must be accepted by Canadian farmers if they are to sell their product. The EEP has placed enormous downward pressure on the prices which Canada can obtain in many of its traditional markets such as China and Algeria. U.S. farmers are isolated from these effects.

History has shown that in the case of wheat and barley, the EEP has not accomplished the purpose for which it was implemented, that is to increase the U.S. share of the world market, rather it seems likely that the EEP draws U.S. grain to subsidized markets and away from non-subsidized markets, which is not in the long term best interests of U.S. producers.

Royal Bank Centre, 90 Sparks Street, Suite 724, Ottawa, Canada K1P 5B4; Telephone (613) 594-4978 Fax (613) 232-7043

PRAIRIE POOLS INC.



Unfortunately, the U.S. response to the problems which are caused by the EEP has all too often been to increase the amount of the subsidy or expand the list of eligible buyers. We would encourage your Subcommittee to seriously examine the effects of the EEP on the international market place, and, in the long term, on U.S. grain producers.

Once again, the Pools appreciate your invitation to appear before the Subcommittee. We understand that Saskatchewan Wheat Pool (SWP) has requested that it be allowed to attend the hearing as an observer. PPI supports SWP in its request. Should you have questions, or require additional information, please let us know.

Yours Truly,

Kenneth Edie

Kenneth Edie
Chairman

Copies to: R. Schmitt, Alberta Wheat Pool
L. Larsen, Saskatchewan Wheat Pool
C. Swanson, Manitoba Pool Elevators

Peerless, Mont
6-8-93

AnnaBelle Fauchy JUN 10 1993
HC 64 Box 6
Peerless, Mt 59253
406-893-4443

The Honorable Representative Williams:

Dear Representative:

Jan 13-93 my husband (Pat) signed a contract with General Mills Inc, at Wolf Point, Mt. It was a low protein bid of 3.18 for 7,500 bu., with a Jan 30-1993 delivery date.

The day come & went & with no word so I called to ask about delivery as we had a bank loan due the first week of Feb. They said they weren't taking our kind of grain now. A few more days & the answer was they didn't have cars. I called a neighbor who also held a hi protein bid so he called. Not the usual person answered the phone this time. He was told they couldn't deliver because they were loading Canadian grain.

Page 2

AB Fauchy
Peerless, Mt

When I called back and told them we needed that grain delievered because our payment was past due. They agreeded to advance a per-cent of the Contract - on Feb 16,th we received the check and on Feb 18 - due to our trucker's presistance, they started to haul the grain out.

Being late on any kind of payment is bad business. It could have been prevented if the elevator hadn't been taking Canada's low grade wheat.

We need a fair trade not a free trade with Canada.

Thank You for your help.

Sincerely,

AnnaBelle Fauchy
HC 64 Bx 6
Peerless, Mont
59253
406-893-4443

Box 222
Outlook, Mt 59252
June 9, 1993

Subcommittee on General Farm Commodities
Committee on Agriculture
U.S. House of Representatives
Room 1301, Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Johnson and Committee Members:

Durum is a crop that can only be raised in certain areas of the United States, Northeastern Montana being one of these select areas. Durum producers in the past received a premium for their commodity, at times up to two dollars or more a bushel. Since the Canadian Free Trade Agreement, durum producers have seen, with the Canadian durum entering our market, a decrease in the premium to the point where last harvest durum was one dollar or more below spring wheat in price.

Canadian durum producers have to sell through the Canadian Wheat Pool. If the Pool calls in their durum at $3.40 a bushel, then that is what they will receive when the durum is delivered to their local elevator. In the United States one can hear that the market for durum is $4.10 a bushel at port, but the producer at the local level in Northeastern Montana will receive as much as $1.20 below this price, or $2.90 a bushel, when the grain is delivered to the local elevator, as the producer is the one who pays the shipping cost to port. The United States does not have a "crow rate" like Canada that pays for the shipping of grain.

According to the May 24, 1993 AGWEEK, durum production in the United States is down 17 percent this year. Durum has been the main crop raised on our farm since 1972, this year we did not seed any durum because of the continuing falling price.

In the same issue of AGWEEK Brian Buckley a Consul General of Canada states that the United States accounts for less than 14 percent of the total Canadian export of durum. Why is the United States importing a commodity that can be produced in the United States?

The Canadian government has recently gave the farmers permission to sell their barley in the United States without going through the Wheat Pool. The ag experts in the United States expect the barley prices to fall because of this new influx of barley from Canada. Will durum be the next commodity that Canadian producers get permission to haul direct to United States markets?

On any given day the people of Northeastern Montana can observe cattle, hogs, and grain entering the United States from Canada. We don't see the Canadian people or government paying income taxes to support the government of the United States or our roads over which their commodities are being transported. The time has came that the United States government put the people of the United States ahead of the other people in the world. Farmers deserve the chance to make a decent living by getting a fair price for their commodities without the influx of Canadian commodities.

Sincerely,

Teri Fellon

TERI FELLON

Rep. Pat Williams
Courthouse Annex
325 2nd Ave. N.
Gt. Falls, Mt. 59401

My name is Jack Greenwood and I am a grain farmer from Wolf Point, Mt. On January 19th 1993 I signed a contract with the local General Mills Elevator to deliver 10,000 bu. of grain. I was allowed to haul some of it and was then told I couldn't haul until after they loaded a train of Canadian grain. I was then allowed to haul a little more but was again told to quit hauling. When it was determined that I had high protein in my wheat I was told I could haul but those with low protein would not be allowed to haul until the Canadian grain was loaded. The loading of the Canadian grain also created a shortage of hopper cars. Some local farmers were forced to wait for three to four months to fill their contracts and get badly needed operating money.

Thank You

Jack W. Greenwood

Jack W. Greenwood
Box 249
Wolf Point, Mt. 59201

**Hellies' Incorporated**

Grain and Livestock

Whitewater, Mont.
Box 23

Ph. 674-5440

June 9, 1993

To: Sharon,

Subject:
Canadian dumping of poor quality wheat on U.S. markets

Under the guise of free trade Canadians were allowed this past winter to haul approx 50,000,000 bu. of mostly frozen wheat into elevators along the Hi Line. This wheat was not salable in Canada & graded feed grain. The Wheat Pool would not accept this grain, which explains the reason U.S wheat has a reputation of being inferior to Canadian grain in regards to grade, cleanliness, etc. The govt, (Canadian) would not accept this wheat, but seen nothing wrong with dumping it on U.S markets.

Greed of the U.S grain trade & elevators contributed strongly to the success of this blatantly wrong manner. Elevators commonly made $1.00 per bu. & in many instances exceeded this amount. We can bring testimony that this Canadian grain was dumped in the same pit, same hopper car & was shipped out as U.S grain.

**Hellies' Incorporated**

**Grain and Livestock**

Whitewater, Mont.
Box 23

Ph. 674-5490

What it all boils down to is that we Americans are a bunch of inept, slithering idiots unable to protect our farmers & our country from a blatant take over from a foreign country. It isn't the farmer that don't understand, its the politicians appointed by an inept gov't, such as Kantor, negotiator, for the free trade agreement who admits his 12 yr old daughter out negotiates him, and he is supposed to guard our best interests.

Then we have Senators & Reps. who, when I contact them say, "Oh its all decided or will be in the next year or so & we can't do anything about it until some committee meets next year. Meanwhile our livlihood is slowly deteriating away to the point where we are wondering how will we continue to hang on.

Sharon I hope you can pick something out of this that will help you in your presentation at Great Fall

Ike Hellie

Ric Lamb
George Lamb
R & G Quality Feed Inc.
Box 160
Malta MT 59538-0160
406-654-1530

We own a feed plant and grain elevator in Malta, Mt. e have been directly affected by the Free Trade Agreement.

We purchase wheat and deliver it to the unit train market. Many times last winter, our grain semi-trucks sat behind 10-14 Canadian trucks in line at the grain terminal. Many days, we could only haul limited amounts of grain because the elevators were full. Grain cars were hard to come by. Every truck load of Canadian grain meant one less truck load of a U-S farmer's grain was going to get to market in a timely manner.

The Canadian Wheat Board made a deal with some of the large Canadian feed companies that allowed them to use up to 70 percent by weight of barley in a ration and not go through the Wheat Board. Large amounts of range pellets came down into our area.

They are using us for a dumping ground for low quality grain in the feed. This cut rate feed makes it hard for a US feed plant to operate.

When Canadians try to take chemical, salt and fertilzer, and fuels from here, they have to pay duty and a 7 percent tax.

Last week, we had two Canadian ranchers buy bloat blocks here and both had to return them

because they weren't allowed across the border with them.

It seems to us that they (Canada) have free access to our markets and we are limited severly in theirs.

Thank you,

Ric Lamb

George Lamb

June 23, 1993
Frostgrass MT, 59434

U.S. House Agriculture Subcommittee
on General Farm Commodities

Chairman Johnson, Rep. Williams and Rep Peterson,

Dear Sirs:

I attended your meeting in Great Falls on June 11. I must admit I take the protectionist view. Commerce and trade are based on need for a product which you want and don't have. We do not need Canadian grain because we have plenty of our own. Canada is very protectionist. I tried to take barley North, but was told it was a variety not grown in Canada so it was not allowed. All of the grain they are hauling down are varieties not grown in U.S.

Everybody talks of all the grain coming south, but look at all of the dollars going North. We have a large Trade deficit now and this is making it worse. If these U.S grain companies need grain they will buy it down here. The money would stay in the U.S. and stimulate the economy, especially the small towns of America.

Canada is keeping their dollar artificially low, and will continue to do so as long as it is to their advantage. Mr. Williams is right in stating Montana is merely becoming a highway for Canadian trade. More grain dollars stay in Canada because of their devalued dollar, there are no income taxes paid of any kind. Canada wants to use our rail system, ports and highways, and will straight to Mexico.

②

I totally disagree with Jonathan Schluter of the Pacific Grain and feed association. The Canadian farmers are not making any money on this and neither are the U.S. farmers. The big dollars are being made strictly by the elevators, some as high as a dollar per bushel.

I live in Sweetgrass, Mt and farm east of town. My wife works a customs brokerage and the amount of grain coming through is ridiculous. General Mills of Great Falls started bringing Canadian grain through last August before the snow storm that caused quality problems. I talked to some of the truckers, some of the grain was milled in Great Falls, some going to Idaho, Utah, Washington state. Much of the wheat was bought for $1.87 a bu. and sold for much higher. Barley was coming through at $2.90 cwt. – a dollar less than market down here.

The California and Washington feed lots have traditionally been Montana markets for feed barley. These markets have been destroyed by Canadian imports. Our market has fallen since this started.

The other night at the brokerage, I met a trucker who was a farmer in North Dakota. He took a job trucking to supplement his farm income. He hauled produce north and was hauling barley from Leduc, Alta, Canada which is 380 miles from Sweetgrass and then to Kennewick, Wash, another 500 or so miles. We figured up the price and it was being bought for 60¢ under the U.S. market. Something isn't right here.

The Canadian trucks are pounding Interstate 15 to Shelby. They are hauling 138,000 lbs in Super B trailers, a special configuration that looks like this: 
They pay no highway use tax, but do have to buy a permit for $10.00 to take this to Shelby.

(3)

The Canadian grain must be stopped. It is devastating the U.S. farm economy. Nov avg wheat prices in Shelby yesterday were 1.29 bushel for 12 protein wheat of which the area produces a lot.

I was pleased to hear the EEP money being made available to Mexico. This will be a great help to us. Well my two minutes are up.

Thanks for listening

Mike Lerum
Box 111
Sweet Grass MT 59484

# DANIELS COUNTY

SCOBEY, MONTANA

June 4, 1993

| Post-it™ brand fax transmittal memo 7671 | # of pages ▸ 1 |
| --- | --- |
| To T. J. Gills | From Daniels Co. |
| Co. | Co. |
| Dept. | Phone # |
| Fax # | Fax # |

Mrs. Mary Nielsen
302 North Hazel
Plentywood, MT 59254

Dear Mary:

You may call Daniels County a captive county when it comes to transportation. With the loss of rail service from Scobey to Opheim two years ago, heavy trucks began hauling grain on Highway No. 248.

Since August, 1992, 700,000 to 800,000 bushels have been hauled by truck to Scobey from the west end of Daniels County and the northeast corner of Valley County. This is all grain that should have been shipped by rail. Many more thousands of bushels came from this same area by truck, through Scobey, and then to Whitetail on the Soo Line Railway because Burlington Northern did not, or could not, provide enough grain cars to fill the local demand.

Highway No. 248, Opheim to Scobey, is a Secondary Highway that has severely deteriorated because of this heavy traffic.

It is very crucial that rail service be maintained and that the Scobey-Opheim branch line be brought back into service.

Harvest States, our local grain elevator, has handled 2,500,000 bushels in the past year.

The county is hard pressed just to maintain our county gravel roads and seal the cracks on the secondary roads

BOARD OF COUNTY COMMISSIONERS
Daniels County, Montana

Luverne Nieskens

By Luverne Nieskens, Commissioner

June 10, 1993

Dear Pat.

I write you to protest the Canadian grain coming into the U.S. The CRP took millions of acres of crop land out of production. This had a beneficial affect on our grain prices. With Canadian grain coming in, it will surely lower our prices, and will increase the deficiency payments.

I see it as a subsidy to the Canadian farmer.

Why should the American taxpayer subsidize Canadian farmers?

Sincerely
Walt Funk
Box 1598
Chinook, MT
59523

Post-it™ brand fax transmittal memo 7671 | # of pages ▸ 2

| | |
|---|---|
| To T. J. Gillis | From Gene Raimotte |
| Co. Congressman William | Co. Valley County Commis. |
| Dept. | Phone # 228-8221 |
| Fax # 771-1335 | Fax # 228-9027 |

# Valley County

601 Court Square
Glasgow, Montana 59230

Phone: (406) 228-8221
FAX: (406) 228-9027

TO: Congressmen Pat Williams

FROM: Valley County Commissioners

RE: Impact of Grain Trucks on Highways

June 10, 1993

The Valley County Commissions are opposed to grain moving from Canada to the United States.

The branch line from Opheim to Scobey has been abandoned and Burlington Northern has indicated that they would like to have main line service only.

In light of this, the Valley County Commissioners are greatly concerned over the increased impact on the roads involved with Canadian trucking. We feel there should be some type of tax on the trucks from Canada to help finance the maintenance of these roads.

Canadian Highway Standards are lower than the standards set by the United States. It is our opinion that our standards should not be lowered to those of Canada.

Because of the lower highway standards, Canadian trucks can haul up to 136,000 pounds on triple trailers. Trucks hauling loads of this magnitude do considerable damage to highways. Due to the budget restrictions of I-105, County budgets cannot be increased to repair the damage made by the Canadian grain trucks.

In any event, Counties will lose tax dollars, whether the rail line is abandoned or is acquired by a Rail Authority. It is only through rail service that Counties get tax dollars from the towns, the elevators, and the short line operation.

Finally, a large portion of the farm land in northern Valley County is in the CRP Program. When this land is put back into production, trucks will begin moving grain once again and will put even more stress on our roads.

Positive measures to save our roads must be taken by the elected officials in Washington.

Sincerely,

Gene Reimche
Valley County Commissioner

*The Big Sky Country* GFJ JUN 0 9 1993

# MONTANA HOUSE OF REPRESENTATIVES

**REPRESENTATIVE DORE SCHWINDEN**

HELENA ADDRESS:
CAPITOL STATION
HELENA, MONTANA 59620
PHONE: (406) 444-4800

HOME ADDRESS:
R.R. BOX 6080
WOLF POINT, MONTANA 59201
PHONE: (406) 392-5579

COMMITTEES:
AGRICULTURE AND LIVESTOCK
NATURAL RESOURCES
STATE ADMINISTRATION

June 8, 1993

Representative Pat Williams
325 2nd Avenue North
Great Falls, MT 59401

Dear Mr. Chairman and members of the Committee:

Thank you for coming to Montana to conduct hearings on the proposed North American Free Trade Agreement. I hope that you will take special note of the testimony presented by Montana farmers. Corporate and government interests are undoubtedly important to the overall prospects of the trade agreement, but no group will feel the immediate impact or determine the long term outcome more than our farmers.

As a farmer and state representative, I have been directly involved with grain trade under the Canadian Free Trade Agreement. Millions of bushels of poor quality canadian wheat has been delivered to our local elevators and marketed through our testing sales and transportation systems since last harvest. I'm sure you will have heard testimony regarding the various problems caused by the influx of this type and amount of grain.

My main concern with the proposed NAFTA agreement is fairness to both US and Canadian farmers. I sponsored HB658 in the last session of the Montana Legislature as an attempt to insure that Canadian growers would pay their share for access to what is generally regarded as the best grain marketing system in the world. This assessment, paid by Montana grain growers for a number of years, funds the Montana Wheat and Barley Marketing Committee along with four trade offices in the largest grain importing countries. Exports have been the key element in providing a good market price for grain and strong prices directly effects US farm subsidy responsibility by lowering the amount of deficiency paid to farmers.

While free trade and access to world markete is a good theoretical idea, the reality is that without price protection both Canadian and US farmers will suffer. The grain elevator and shipping conglomerates are the only certain beneficiaries of the NAFTA agreement. Montana farmers simply want a fair price for their produce and the ability to market it in a timely manner.

Thank you again for your effort and interest in this difficult matter. I hope you enjoy your stay in our state.

Sincerely,

Dore Schwinden

Representative Dore Schwinden

attn: T.J.
one page

**Jack and Christy Stensland**
Box 6068
Wolf Point, Montana 59201

406-392-5595 or 392-5517

Pat Williams
Courthouse Annex
325 3rd Ave. No.
Great Falls, Mt. 59401

Free trade means everyone plays by the rules. It should be that black & white. But like spots on a leopard the Free Trade Agreement has shown its true colors.

We are very concerned that Canada is dumping their grain onto our market while we stand around and uphold the trade laws. This dumping is a violation and our American lawmakers must understand that the hand that feeds them does not agree with this trade practice. We can not afford to put American farmers out of business because Canada causes a glut to the market. Remember North

# IMPACT OF CANADIAN GRAIN IMPORTS ON UNITED STATES PRODUCERS AND MARKETS

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**SATURDAY, JUNE 12, 1993**

House of Representatives,
Subcommittee on General Farm Commodities,
Committee on Agriculture,
*Moorhead, MN.*

The subcommittee met, pursuant to notice, at 9 a.m., Northwest Technical College, Moorhead, MN, Hon. Tim Johnson (chairman of the subcommittee) presiding.

Present: Representatives Peterson and Pomeroy.

Staff present: Anne Simmons, Anne C. Keys, and Xavier Equihua.

## OPENING STATEMENT OF HON. TIM JOHNSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH DAKOTA

Mr. Johnson. The General Farm Commodities Subcommittee hearing is called to order. If everyone would take their seats we can expedite things a bit and get on with the business of the subcommittee.

At the request of Congressman Pomeroy and Congressman Peterson, the very first subcommittee hearing, field hearing of the 103d Congress held by the General Farm Commodities Subcommittee is being held in the northern plains here.

Both Collin and Earl were very insistent that we take the subcommittee out of Washington and come to the Fargo/Moorhead area and listen to producers and ag leaders firsthand about the nature of the problems that we're having and have a review of the Canadian grain import on U.S. producers and market issues in particular. I'm thankful for the leadership of both Congressmen Pomeroy and Peterson on this issue.

There's no lack of experts in Washington to share everything they'd like us to hear, but I find sometimes it is more profitable to come home and talk to the people whose lives are impacted on a day-to-day basis by the policy decisions that are made or not made in Washington.

I'm grateful for the leadership of both the gentleman from North Dakota and the gentleman from Minnesota.

In terms of the ground rules of this hearing, we're going to be listening to testimony from two panels and I'm going to have to enforce a 5-minute rule because we have a number of people who want to speak. We will also have some questions to ask as well.

We will be taking the written testimony back to Washington for review by the entire Ag Committee, as well as by our staffs, and

that is very important, so you may want to consider summarizing your testimony so that you can fit it into the 5 minutes, but if you're more comfortable reading the testimony that's all right too, but I'd leave that option to you about what works best in that 5-minute period.

At the close of the hearing, it is my intention if we have time left, and I'm hopeful that we will, to have an opportunity for individuals who are not members of the panel, but who wish to express an opinion or make a comment to the subcommittee, to have an opportunity to come to the podium and have at least a couple minutes to express their views.

If you are not on the panels, but do wish to express views, if you'd care to do it in writing, by writing a letter or making a written statement, we will receive that into the record as well.

I don't want to be exclusive about who we are listening to when we come to the Fargo/Moorhead area here to talk about an issue that is as critical as this is to the prosperity of the entire region.

So for those of you who are not on the panel, be thinking about whether you care to give oral testimony, but even if not, if you care to submit a statement, a letter or something of that nature, we will receive it as long as my staff is aware of your interest.

So with that, we will begin the hearing on the impact of the Canadian grain trade on U.S. producers and markets.

There are a number of side issues dealing with the Canadian Free-Trade Agreement and the binational panel and their findings which were not particularly helpful.

They were not helpful at all to the American perspective this last year or to the new decision by the Canadians relative to barley. I think we need to be talking about that and its potential impact and what American policy alternatives we have.

The issue of end-use certificates is something that has been somewhat contentious and we need to talk about that.

So with that, I would proceed, having laid out the overview of where this subcommittee is going during the course of this hearing. I will yield first to the senior member of the panel with me today, the gentleman from Minnesota, Mr. Peterson, for any opening statement that you might have.

**OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA**

Mr. PETERSON. Thank you, Mr. Chairman. First of all, I want to thank you for coming out to the Seventh District of Minnesota. We appreciate you spending your time on this Saturday helping to further illuminate this issue.

I also want to thank Congressman Pomeroy for coming over to the Seventh District. He had a long ways to come across the river. Was it a mile that you had to come out?

I also want to thank all of you for taking a Saturday morning, when you'd probably just as soon have been at the lakes or some other place, to be with us and share your insights and thoughts on this important issue.

With the implementation of the United States-Canadian Free-Trade Agreement we have watched an increasing amount of Cana-

dian grain entering our market and I've been hearing about this for some time and it seems to be—well, it is getting worse as time goes along and as the chairman said, with this latest decision and some other indications that we're getting from the Department, we're real concerned about where this is heading.

We had a meeting, Senators Conrad and Dorgan and myself, with the Department where they were giving us some indication that they think there's going to be a considerable amount, maybe as much as 300,000 additional acres planted in Canada this year with American variety wheat and barley that is going to have, I think, some real negative effects if that actually happens.

Since we have had the new Trade Ambassador appointed, Ambassador Kantor, we have been trying to educate him about these problems and it seems like we're fighting an uphill battle.

He's been good in terms of meeting with us, but we really have, at this point, had little success in getting him to do very much about what we see as some things that are inherently wrong with the agreement that was entered into by his predecessors.

We did invite him to come to the hearing today or to send somebody from his office, but they declined and I think that's too bad.

I think it would be good if we had somebody from the Trade Office here. They are the ones that probably need to hear this more than anybody else, just what impact things are having up on—especially the northern tier.

I think we all know what the problems are in this area at least, that we have Canadian grain that's got transportation subsidies.

They have a pricing system in Canada where they can undercut us by using the Wheat Board and we are convinced that to some extent these imports are having an impact on our prices, maybe not the complete problem, but it's not helping anything. And we have been unable to work out some of these issues and even get them to come to the table.

I've had an opportunity in the last month to go to Canada twice to meet with some parliamentarians from up there and the first meeting was about a month ago. It was the official group that meets every year.

I think this was the forty-first year or thirty-fourth year they met where the Parliamentarians from the governing party were there and 1 whole day was spent talking about trade.

And the reason that I accepted the invitation was that all they hear about in those meetings generally is about what a good thing that free trade is and just about everybody that goes to those meetings are free traders.

And I can tell you that they were somewhat shocked when they heard me go on for about an hour about Canadian grain. I know that for a fact that many of those people had never heard some of these things before.

And to illustrate some of the difficulty we have been having getting through to Canada, in a recent letter from Trade Minister Wilson to Ambassador Kantor where he was referring to the surge of Canadian grain he said that, "I am concerned that we seem to be facing a situation where facts are incidental and only political perceptions count."

I can tell you that in talking to some of these Parliamentarians they view this the same way, that we really don't have anything, any facts on our side, that this is a political kind of thing and that we're having problems and we're blaming it on the Canadians.

So we've got a lot of work to do. I did also meet with our friends from across the border just the weekend before last and there are also some positive things.

There are some members of the Parliament up there that are interested in working with us in trying to figure out if there's some way that we can work together rather than against each other so that we can help farmers on both sides of the border so I think that there is some possibility that we can move in the right direction.

In terms of what some of us have been trying to do because of my experience, or our experience with the Canadian Free-Trade Agreement and what I see as a similar kind of problem in the NAFTA, I have formed in-house an anti-NAFTA caucus which now has 29 Members, including one Member of the leadership, three full committee chairmen, and Republicans and Democrats from every corner of the country.

And our position is that we need to send the North American Free-Trade Agreement back to the bargaining table, that we should vote it down and in that process some of us would like to see us open up the Canadian Free-Trade Agreement and work on some of these problems such as the wheat and barley problem that we're talking about here this morning.

And we, right now, have the votes to defeat the NAFTA. The problem is that the pro-NAFTA forces are going to spend somewhere in the neighborhood of $50 million in the next few months trying to change that.

And so the fight has just begun and we realize it's going to be difficult, but I think we stand a pretty good chance of keeping this from coming to a vote, at least this year.

When I was talking to the Parliamentarians in Canada, the liberal and NDP party believe that they are going to win this election in October and they are going to have another vote on NAFTA, and they will vote NAFTA down in Canada if the Government changes.

And so I think there is some help on the horizon, maybe on the other side of the border, if we can hold this off for awhile.

Now, maybe not everybody on the panel here agrees with my position on this, but this is where I think we ought to go.

Also, Senator Conrad and I have introduced the end-use certificate bill again in the House and the Senate, and as I understand it, Senator Conrad is trying to get the end-use certificate bill into the reconciliation bill that we're working on right now. There was some indication yesterday that it might become part of the Senate reconciliation bill.

That would be a good thing because if it gets in that bill it can't be amended, and it's an up and down vote and it may be a way that we can finally get the end-use certificates situation into law.

Last, we also have been talking to the department about the possibility of bringing a section 22 action against Canada on these wheat and barley imports because we are convinced that this surge of imports is undermining our domestic program.

Section 22 allows us to put in place some restrictions if we can prove that it's hurting our domestic program and the Department is in the process, as I understand it, of trying to see if they think that we can support a section 22 action.

Although, they are skeptical about whether they are going to be able to get the administration to back them because of what they think will be an opposition from the Trade Office in the State Department.

Barring that, we're also trying to get the Department to use EEP funds, particularly in Mexico, because we have lost a considerable market share, as you all know, that we used to have in Mexico to the Canadians.

We think because of rail subsidies and some of these other issues, so we have been working on a few things and I guess one of the things I hope we can find this morning is maybe some new ideas and some new answers about where we ought to go and what we can be doing in Congress to try to address this problem short of getting a whole agreement back on the table.

Again, I want to thank everybody for taking their Saturday and coming to the Seventh District and we look forward to testimony. Thank you, Mr. Chairman.

[The prepared statement of Mr. Peterson follows:]

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AGRICULTURE
ENVIRONMENT, CREDIT AND RURAL DEVELOPMENT
GENERAL COMMODITIES
LIVESTOCK
SPECIALITY CROPS AND NATURAL RESOURCES

GOVERNMENT OPERATIONS
CHAIRMAN, EMPLOYMENT, HOUSING AND AVIATION

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CONGRESSMAN COLLIN C. PETERSON
1133 LONGWORTH HOUSE OFFICE BUILDING, WASHINGTON, D.C. 20515 (202) 225-2165

**AGRICULTURE SUBCOMMITTEE ON GENERAL COMMODITIES**
**JUNE 11 AND 12**
**CONGRESSMAN COLLIN C. PETERSON**
**OPENING STATEMENT**

I would like to thank my colleagues, Tim Johnson from South Dakota, Earl Pomeroy and Pat Williams from Montana for participating in this hearing. Thanks to all of you for spending your Saturday testifying on this critical issue.

With the implementation of the U.S. Canadian Free Trade Agreement, we have watched an increasing amount of subsidized Canadian grain entering our market. This is the same trade agreement that did not eliminate any obstacles our producers encounter when they attempt to sell grain into Canada. Furthermore, every year Canada plants more of their excess acres to U.S. varieties, even as the U.S. producers are under mandates to increase their flex and set-aside acres.

Since Ambassador Kantor was appointed U.S. Trade Representative, we have been trying to educate him about problems inherent in U.S./Canadian agriculture trade. We are fighting an uphill battle because Ambassador Kantor is still surrounded by the previous administration's trade department officials...the same officials

that negotiated the Agreement. That's why I am disappointed that he declined to testify at today's hearing. This would have been a good opportunity for him to see and hear first-hand from the people directly affected by these issues. Issues like:

- Canada's 50 cents per bushel transportation subsidy.
- The Canadian government's pricing system that allows them to set prices at whatever level is necessary to undercut American sales.
- Canadian grain imports as a factor contributing to lower U.S. grain prices.
- The Canadian government's opposition to the United States implementing end use certificates even though they require one.
- Canadian growers planting U.S. wheat varieties on thousands of excess Canadian acres.
- The U.S. losing almost our entire Mexican market share to Canada.

Canadian officials are viewing these as non-issues. To illustrate the difficulty in getting Canada to negotiate on these issues, in a recent letter from Canadian Trade Minister Michael Wilson to U.S. Trade Representative Mickey Kantor, referring to the surge in Canadian grain, he said, "I am concerned that we seem to be facing a situation here facts are incidental and only U.S. political perceptions count." Unfortunately, Ambassador Kantor must be listening to Minister Wilson because although he has been willing

to meet with norther tier Members to discuss the problem, he has failed to initiate or suggest any actions to correct the problem.

What can we do to remedy this problem?

First of all, I founded the Anti-NAFTA Caucus because the agreement as negotiated extends and expands the problems we have with the Canadian Agreement. In fact, my opposition originally stemmed from the inequities in the Canadian Free Trade Agreement. During negotiations of the North American Free Trade Agreement, we repeatedly asked the negotiators to open up the agriculture section of the Canadian Agreement to fix our problems. They did it for autos, but not for agriculture. I'm convinced that we must send NAFTA back to the table, negotiate trilaterally, and force Canada and Mexico to work with us to guarantee FAIR trade.

As an immediate measure, Senator Conrad and I reintroduced the End-Use Certificate Bill this year. That will provide a mechanism for us to track Canadian grain and guarantee that it is not being subsidized through the Export Enhancement Program. We anticipate hearings within the next couple of months and will work to get it included in the trade bill that comes out of Ways and Means. The House passed the End-Use Certificate Bill last year as a component of the major trade bill. But, with a Presidential veto looming, the Senate did not pass a companion bill. I will continue working with my colleagues to pass the End-Use Certificate Bill this year.

I am pushing the Administration to file a section 22 complaint against Canadian wheat and barley because it is interfering with our domestic support programs. USDA is working on the complaint; but, officials are concerned that they will meet strong resistance from the United States Trade Representative and the State Department.

Finally, we have asked USDA to aggressively use EEP funds to compete with Canadian sales, particularly sales into Mexico. Fully utilizing EEP is the only way we can compete for international markets. We have all felt the frustration of unused EEP certificates and countries not using their allotments. USDA must actively promote EEP sales and move wheat and barley into the marketplace.

I look forward to hearing what you have to say and working with you to help resolve these enduring trade problems.

Mr. JOHNSON. The Chair would note that not only is there not uniform opposition to NAFTA on the panel, but there is not uniform opposition on the Ag Committee either and that there are considerably mixed views on NAFTA in the Congress.

Also, the Chair would note that while the Trade Representative declined to attend this hearing, in all fairness to the USTR, they generally do not attend field hearings and have made themselves available for hearings in Washington and so we have had interaction with United States Trade Representative Kantor and his staff and they have been helpful at that point.

We have also had input from the Canadian Embassy. They have sent us a letter indicating that they do not attend congressional hearings of this nature.

However, they did send written information with a package of data. It is public information and everyone is welcome to look at the data and information from the Canadian Embassy itself.

We have also had in the course of taking testimony here and in Montana, testimony from Unifarm, a Canadian organization, because I think it is important that we take into consideration a multiplicity of perspectives on the problem. I think that gives us a better depth of understanding of the nature of the conflict that we are going through.

With that, I would recognize the gentleman from North Dakota, Mr. Pomeroy.

## OPENING STATEMENT OF HON. EARL POMEROY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH DAKOTA

Mr. POMEROY. Thank you very much, Mr. Chairman. I want to commend you for coming out to the Upper Midwest and particularly the Red River Valley.

This hearing is being conducted in the middle of some of the richest farmland found anywhere in the world. We're very proud, Representative Peterson and I, to represent this area in Washington.

I think that the hearing today focused as it is on the problem of Canadian grain imports is a particularly timely one and I really appreciate it, as I know Congressman Peterson does.

Your assistance in establishing the record today, which we will take back to the Ag Committee, will generate a basis for hopefully some committee action to address this problem. We have a situation that is bad and rapidly growing worse.

The Durum problem which has received some attention and discussion ever since the Canadian Free-Trade Agreement was negotiated, continues to deteriorate.

More recently we have seen Spring Wheat imports from Canada doubling every single year since the Canadian Free-Trade Agreement was negotiated.

The consequence of the combined effect of Durum and Spring Wheat has been a surge of imports going up 183 percent nationally, from 1991 to 1992.

North Dakota stands at the center of this flood and has been hit harder than any other State in the country; a 756-percent increase in Canadian grain imports in 1992 over 1991. This is a completely unacceptable situation.

I have been pleased that Ambassador Kantor has stepped up pressure on the Canadians to respond to the sensitivities of our side of the border to this flagrant and aggressive marketing activity.

Unfortunately, we see by the announcement of the Canadian Wheat Board Monday that so far these efforts have been absolutely disregarded.

The Canadians have simply snubbed their nose directly at the United States Trade Representative in announcing a new aggressive onslaught of Canadian barley which they are about to unleash onto our markets.

The decision to allow direct marketing by barley producers in Canada into this country stands the prospect ultimately of more than doubling Canadian barley sold into this country, displacing roughly an additional 15 percent of our market and suppressing prices likely at 20 percent from what they are today.

This is going to really hurt our barley producers. North Dakota is the largest State producing barley, the largest producer of barley in the country.

It's also going to hurt taxpayers. Lower prices mean higher deficiency payments, more tax dollars, and this is particularly galling with the fungible Canadian grains ending up in our system and actually the prospect of United States taxpayer dollars ultimately going to help export Canadian grains—due to the impossibility of distinguishing them.

This long, frustrating fight has I think had several distinct disappointments. First of all, we're disappointed with the preceding administration. The administration negotiated a flawed agreement and then put language in hearing testimony which made it even more difficult to argue a constructive interpretation of the Canadian Free-Trade Agreement.

Second, their own failure to try and address the situation and work toward resolution has certainly left us receiving an onslaught of imports.

We're frustrated, in addition, that the NAFTA negotiations, did not present an opportunity to fix a flawed Canadian Free-Trade Agreement. Our hopes in that regard were dashed when the Canadians didn't want to roll agriculture into the NAFTA negotiating framework.

I think they realized they had a good deal when it came to agriculture with the Canadian Free-Trade Agreement and didn't want it touched in any way. They certainly have a good deal, one that unfortunately is not fair to our producers.

The next level of disappointment came when we lost the binational arbitration panel with the ruling on February 8, 1993 that basically threw our challenge out of court on the Durum import situation.

That leaves us in a difficult position; a problem, one that's growing rapidly worse compounded by the barley announcement and no clear path as to how we address immediately this problem.

I really hope today's panelists will help us strategize for crafting an immediate response. Options can include reconvening the dispute panel or obtaining Canadian concessions voluntarily.

I think, in light of the Canadian political situation and general elections in that country to be held this fall, that's extremely unlikely.

Obviously the announcement of the Wheat Board shows they don't care much what we have been saying about our problems with grain imports and, in fact, they show no sign of accommodating our concerns; rather, they are stepping up their own marketing activities.

I think we should look at triggering Export Enhancement Program subsidies to sell our grains into Mexico. I believe that our grains are competing against subsidized Canadian grain and this would clearly be a shot across the bow of Canadian producers.

I was pleased to sign a letter, which I believe you both signed, and the chairman of the House Agriculture signed, to the President, to the Secretary of Agriculture urging EEP's support for our markets, for our exports into Mexico.

Two other specific strategies that I think are directly relevant in light of the barley situation, I believe that section 22 tariff sanctions can be established and proven more easily for barley than for Durum.

We need to show that our markets have been impacted and that they have been impacted as a result of the Canadian governmental action.

I think that the likelihood of a devastating impact to our markets create a situation where we immediately ought to begin a section 22 complaint and I hope the House Agriculture Committee, partly as a result of this morning's hearings, if that is your feedback, will strongly urge the administration to take that action.

A second course of action is to move and move quickly the proposal introduced by Representative Peterson on the House side, Senator Conrad on the Senate side, to slap on Canadian grain coming into this country a requirement very similar and identical to what our grain has going into that country, the end-use certificates.

Not only are the Canadians dumping into our country, they are frustrating our abilities to market into their country.

End-use certificates are an irritating paperwork hassle. Our exports are encountering that in Canada and I think we ought to apply it to them. It will have the additional effect of allowing us to identify exactly the export activity that is taking place and will keep us from mixing their grains with our grains for subsidized exports under the EEP program.

I think that Representative Peterson and Senator Conrad have an excellent idea and one that should move on a very fast track.

Mr. Chairman, again, my thanks for coming up to this area. I believe we have not only a crisis on our hands, but we need to respond quickly.

Mr. JOHNSON. I thank you, gentlemen, and the Chair would note that the Senate appears to be in the process of addressing the end-use certificate issue in the context of the budget reconciliation bill on the Senate side and we may see action there and it may come back to the House and Congress for committee deliberation.

We'll move to the first panel. The first panel is composed of Ms. Sarah Vogel, commissioner of the North Dakota Department of Ag-

riculture from Bismarck, North Dakota; Dr. William Wilson, a professor of the department of agricultural economics at North Dakota State University in Fargo, North Dakota; Mr. Alan Bergman, president of the North Dakota Farmers Union in Jamestown, North Dakota; Ms Julie Bleyhl, is legislative services director of the Minnesota Farmers Union, in St. Paul, Minnesota; and, Mr. Howard Schmid, president of the North Dakota Farm Bureau in Fargo, North Dakota.

Mr. Al Christopherson, president of the Minnesota Farm Bureau in St. Paul was initially on the panel, but has a conflict and so Mr. Howard Schmid will be taking his place on the panel.

So, if those panelists will come down on the first row here I think it would be helpful. We have only one podium for people to speak from and so we need you to be down in that vicinity and it would help expedite this.

And we will begin in the order of people named and Ms Sarah Vogel will go first and, again, we will be using the red and green light mechanism here unfortunately.

## STATEMENT OF SARA VOGEL, COMMISSIONER, NORTH DAKOTA DEPARTMENT OF AGRICULTURE

Ms. VOGEL. Good morning. It's good to see you. Getting ready for this hearing this morning I went through some of my prior material and I realized that this is the eighth time that I have come in to testify about problems with the Canadian Free-Trade Agreement and/or NAFTA with regard to grain. So, I hope we have better luck today than we have had in the past.

Time and again problems with the Canadian Free-Trade Agreement, as well as the consequences of those flaws, have been brought to the attention of the administration by myself and many others, many of whom are in this room and are also up here probably for their eighth time.

Despite all of these alerts, corrections have not been made and even worse, these problems are duplicated in the North American Free-Trade Agreement and I think that's very inadvisable.

As you've already summarized, the result of this neglect to these problems and the bad drafting in the beginning is that Durum imports from Canada have skyrocketed to one-fourth of our domestic consumption.

Imports increased 88 percent between the year 1989/1990 and 1991/1992. In the Pembina Customs District, which is the district that we're covered by in North Dakota, imports from Canada went from 13 metric tons in 1990 to 91,315 metric tons worth over $12 million in 1992. And our farmers have suffered as a result of this displacement in our own domestic market.

We have tried very hard to export Durum to shore up our market and increase our farm income. We devote a lot of resources to EEP.

Since 1989–90 we have increased EEP for Durum by 300 percent, but our export sales remain flat. Worse yet, for every 5 bushels that we export, we import 2 from Canada.

Why have we seen the sharp increase in Canadian imports and why is the Federal Government seemingly unable to do anything about it? I would submit that it is because of bad drafting in the first place.

The fast track process resulted in the negotiations being conducted in secret. There were no hearings before the public to obtain feedback. The agreement was negotiated by persons who either were ignorant of or didn't care about the impact on the northern tier States.

When it was finally released and many of the problems were pointed out, these problems were swept under the rug by vague promises that something would be done about it in the future.

An example, the Western Grain Transportation Act. The agreement itself could not be changed, but Congress put language into the implementing act providing that the President would negotiate with Canada for an end to the Western Grain Transportation Act subsidy to east coast ports. But nothing was done. I'm not aware of any negotiations to that effect.

Other concerns were voiced about the lack of price transparency which is a problem that plagues us to this day with the Canadian Wheat Board.

When the administration submitted the CFTA to Congress for adoption, they made a lot of promises about how they were going to determine and ascertain what the Canadian Wheat Board was charging. This is still a problem that we're wrestling with today.

The remedies section was another problem. Concern was voiced about the adequacy of the remedies especially in light of the known problems that we were going to be encountering.

Again, what we have experienced is that those remedies simply didn't work. The promises from the present administration that we should not worry about similar problems, with NAFTA because we have remedies that you can avail yourselves of later, I think is a very shallow promise.

There's an old saying, "People who fail to learn from history are condemned to repeat it." And with the negotiation of NAFTA I think we have forgotten the lessons that we ought to have learned from the Canadian Free-Trade Agreement.

Like the Canadian Free-Trade Agreement, NAFTA has been negotiated in secret without the benefit of public hearings by persons unfamiliar or uncaring about the concerns of rural people and subject to fast track.

The remedy sections of NAFTA is modeled after the Canadian Free-Trade Agreement. For example, those remedies hearings by dispute panels will be held in total secrecy. An example is the recent Durum dispute panel. I requested a copy of the briefs filed by our Government, but was told those are confidential. We can't see them. That is absurd. There's no justification whatsoever for that kind of secrecy.

In summary, I would offer the following suggestions:

Require end-use certificates. It is ridiculous to spend our scarce export dollars to export grain that could be from Canada.

Definitely keep section 22. I think we're going to need it.

Keep our countervailing duty law and antidumping law. I think we're going to need those too.

Defeat NAFTA. NAFTA is a bad agreement. One of the many defects of NAFTA is that it fails to correct the problems that we have encountered with the Canadian Free-Trade Agreement. And I've at-

tached a position paper and a lot of other material to my testimony for you to review.

In recent weeks and months there's been a lot of pressure to use EEP in Mexico. I would submit that there is something seriously wrong with a supposed trading block of trade allies who are using export subsidies internally against each other.

This is a sign of very bad structural flaws in this agreement. I can't imagine the Common Market advocating use of export subsidies between France and Germany.

Many people might say, "If we don't sign on to this version of NAFTA, that boat will leave the dock and we'll be left on the shore." I would submit that that boat of this version of NAFTA is the equivalent of the Titanic and we ought to let it go.

We should renegotiate NAFTA. We should treat it as a nice first draft, review it, get the changes that we need, and go forward and expand our trade opportunities.

It's because I care so deeply about expanded trade, fair trade and the position of North Dakota in a very vibrant global economy that I think we should defeat this version of NAFTA. Thank you very much.

[The prepared statement of Ms. Vogel appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you. We are debating the best way to proceed with questions because of the single podium format that we have and maybe the best way to do it would be to allow members of the panel to ask questions to each individual speaker rather than our customary method of asking questions to the full panel.

I would ask Ms. Vogel does North Dakota have an agricultural trade surplus with Canada despite the infusion of Durum wheat and barley into North Dakota? Or do you know what the numbers might be on that?

Ms. VOGEL. I'm not exactly sure of that. I know we work very hard on trade to Canada. For example, in my office we have a marketing division. We organized the first United States-Canadian food show in Canada and we served as cosponsor on it last year.

We also take a number of our companies to Winnipeg for food shows. It's our targeted market. In fact, one of our new initiatives in the growing North Dakota plan is a North American marketing initiative whereby we will help companies market into Mexico and Canada.

Nevertheless, when I think about, for example, imports this year through Pembina customs district totaled 12 million dollars' worth of Durum and I hear the stories from the farmers about the vast numbers of trucks hauling cattle and so forth south from Canada, I tend to doubt that there is a trade surplus, at least with regard to agriculture. I can't really speak to other parts of the economy.

Mr. JOHNSON. I think the subcommittee needs to pursue some firmer documentation on this. On the Montana subcommittee testimony from the Canadians was a rather unhappy concern about American subsidies for American products and noting that Canada suffered an ag trade deficit with Montana on ag products. I think that's something we need to look into.

In terms of your NAFTA comments, what would you say to some people who claim that we have a one-way NAFTA nub, that Amer-

ican tariffs to Mexican products are relatively low while Mexican tariffs to American products are more than double in size; that Mexico has become the third biggest buyer of American products, has a huge consuming population with a vast growing economy and a vast growing middle class with an increasingly sophisticated diet, but relatively modest production capability, unlike Canada, which has a small market and a huge production capability.

Mexico is almost the opposite. The average tariff coming into the United States is 4 percent. The average tariff going to Mexico is 10 percent and so there's some who would argue that we have a one-way NAFTA now better to lower the Mexican tariffs to something more in keeping with what American tariffs are and that, in fact, the ag producers would be the big winners unless you're in the fruit and vegetable business in a Mexican market. What would your response be to that?

Ms. VOGEL. My response would be that is a very nice concept. However, the way that the North American Free Trade Agreement actually came out is that we have a number of new tariffs on wheat which we had been quite optimistic about selling to Mexico.

In fact, there was a seminar here yesterday regarding direct sales to Mexico, but American explorers will have to deal with a brand new 15 percent tariff on wheat that Mexico is adding that will gradually be coming down over a 10-year period.

Now, with barley they have set a very low access for our barley into Mexico. Presently our average for the last 3 years for 1989 to 1991 was 188,000 metric tons sales of barley and barley equivalents to Mexico.

The new tariff free quota that they set up in the North American Free-Trade Agreement is over 60,000 metric tons less than what we presently enjoy. It's going to be set at 120,000 metric tons. Then they are adding a 155 percent tariff on anything over that 120,000 metric tons. It will be coming down over a 10-year period. So in the year 2000 we're going to be having a 73 percent tariff.

Now, I don't consider that fair trade or free trade and whatever the defects of the Canadian Free-Trade Agreement were—and there were many—the Canadian Free-Trade Agreement didn't add new tariffs. But NAFTA does add new tariffs.

And you can go on. It is not a good agreement from what I've been able to see for production agriculture. The projected benefits that the USDA finally came out with for various crops and commodities range from 0.5 percent for wheat after the transition period to 4 percent to soybeans which was the big winner for crops.

I think it is 1 or 2 percent for beef. These are de minimis, trivial benefits.

When you look at how sharply trade with Mexico has increased over recent years by unilateral changes in the Mexican Government system—which I would submit was very flawed—and they are now realizing these flaws, I think the skyrocketing growth in trade is due to Mexican internal changes to their Government.

The Mexican Government is dropping some of their own barriers to trade, such as the Government purchasing agenices and as a result trade is flourishing. But it isn't necessary to put in a new 155 percent tariff on barley to get to a free-trade system.

This is illogical in my mind. Extremely illogical.

Mr. JOHNSON. You would agree that we will have vastly expanding trade with Mexico regardless of the NAFTA agreement?

Ms. VOGEL. That's right. In fact, the growth in the Mexican trade in agriculture in the several years before we had NAFTA was vastly in excess of what they project we will have after NAFTA.

So I think that those statistics would argue let's defeat NAFTA to expand trade. It's ironic, but that's what the numbers and the projections appear to say to me.

Mr. JOHNSON. I thank you. We have wandered a bit afield in that the primary focus of this subcommittee hearing is on the Canadian grain imports, but certainly in a larger context international grain agreements in both Canada and Mexico are appropriate for some discussion. I would recognize the gentleman from Minnesota.

Mr. PETERSON. Just for your information, Sarah, I think you hit on one thing here, the dispute panels and how they operate. If we are going to have to live with these agreements or if we're going to get an agreement that would be good for us, we have to have some kind of mechanism to work out these disputes.

We have done some preliminary looking into how we could end up having a panel that had three Americans and two Canadians and they have ruled against us. Just kind of curious how that could happen.

And my preliminary look into all of this, I think one of the problems is that you have to be on this list before you could be put on this panel and the list is created by the Trade Office and I think that the people that are on the list are the same people that negotiate these agreements which are coming from—either they don't understand or they don't want to understand.

So I just want you to know that we have asked for a General Accounting Office study of these dispute panels and how it operates, how you get on these lists, how that whole procedure works and who are these people that are on this list?

Maybe one of the ways that we can solve some of these problems if we can get this nailed down, find out exactly how it does work, maybe we could change the way it operates so we can get a more diverse group they could pick from and if we can make these dispute panels work a little better we may not have some of these kind of problems that we're dealing with today.

Ms. VOGEL. Congressman Peterson, I entirely agree with you. As I understand the North American Free-Trade Agreement dispute panel process, each country can nominate 10 people so there will be 30 people that can be chosen. Every panel will have five, so obviously some countries are going to have two of the five panelists.

What troubles me in addition to that is that all of the hearings, all of the written materials, all of the scientific evidence that they may pull in through scientific advisory panels is all secret. The agreement even says that the final report is to be secret—unless they decide otherwise.

So even the final report under this agreement could be held secret and I don't understand that. I don't understand why a dispute over tomatoes should be more secret than a criminal charge against a member of the Cabinet. In the United States we have an open court system and it's very important.

I don't understand why the press, for example, isn't excited about the secrecy that they are going to have in these panels. I think it's a critical issue.

For example, I won't be comfortable with the Durum panel dispute until I see what our Government filed on our behalf.

How do we know, for example, that the U.S. Trade Representative really did a bang-up, hard hitting job for us? We'll never know because we can't see a copy of the brief. It might be fine. It might not be, but why the secrecy? I don't understand that.

And I would submit that the 10 people that will be chosen from the United States are going to be 10 trade lawyers and those trade lawyers' clientele will be the international corporations and the multinational corporations. There won't be any farm lawyers. There won't be any environmental lawyers. There won't be any labor lawyers. So I don't think that the way the panel is set up will work for ordinary citizens.

But again, with fast track we're stuck. This is the way it's going to be. That's why I look at all of these defects and I say it's a nice first draft. Let's go back and make some changes.

Mr. PETERSON. It's—well, hopefully we can find out more about just how it does operate and look at the secrecy question too in the context of the GAO study and see if there's some other way we can structure it.

But I think part of the reason we're in this situation is that there are certain interests that are real involved in this trade situation that are trying to use these trade agreements to actually get around domestic law.

I mean, for example, they have been unable to get rid of the sugar program directly so they are going to try to get rid of it through the trade agreement and we have other kinds of situations like that that are happening and I think it's one of the reasons they want to keep all of this behind closed doors so that they don't have to actually talk about what they are really up to.

Ms. VOGEL. There's no precedence for secrecy like this. These are not military matters. These are disputes over tomatoes and barley and things like that. What's the rationale for all the secrecy? It makes me suspicious.

Mr. JOHNSON. The Chair recognizes Mr. Pomeroy.

Mr. POMEROY. Madam Commissioner, good to see you again.

Ms. VOGEL. Good to see you too.

Mr. POMEROY. I know as you worked away at market promotion in the ag department when I was in the insurance department just one floor below you it's tough going. You make a difference at the edges, but it's unlikely that there will be dramatic overnight results over the long haul. Would you agree?

Ms. VOGEL. Yes, I would.

Mr. POMEROY. Now, the fact that 1990—in 1992 we had a 756-percent increase in Canadian grain imports into North Dakota. Does that tell you something is out of whack?

Ms. VOGEL. Yes, it does. Let me give an example going back to my marketing division. We are a small marketing division, it is a small staff and they work—let's just call them hyperactive. They work really hard.

This past biennium by traveling all over the world with a number of our companies, going to trade shows, with farm machinery, food products, high value products, we managed to accomplish 12 million dollars' worth of sales which we were very proud of. It was an excellent result and much better than prior years.

Compare that to the 1 year 12 million dollars' worth of Durum coming in displacing our North Dakota Durum. We went to probably 15 to 20 trade shows around the world with companies, displaced by 1 year's worth of Durum.

Agriculture is the engine that drives our economy and although we work very hard to diversify in expanding our sales, a twitch on the international scene can send a lot of ripples through North Dakota.

Mr. POMEROY. The annual doubling of Spring Wheat from Canada, 21 million bushels in 1992 projected to be nearly 40 million bushels in 1993, was there any shortage of Spring Wheat in North Dakota markets last year?

Ms. VOGEL. No; a very good year.

Mr. POMEROY. Basically the statistics I think are compelling. We have a flawed agreement. We're getting killed.

Ms. VOGEL. As an example, I think Canada exports 90 percent of its wheat. Small population and huge production. The Western Grain Transportation Act subsidy which is $700 million is deemed a domestic subsidy. That was one of the findings of the Durum panel. That's domestic. It's increasing.

Mr. POMEROY. I am a member of Collin Peterson's anti-NAFTA caucus.

Ms. VOGEL. May I join?

Mr. PETERSON. Costs you $10.

Ms. VOGEL. You're on.

Mr. JOHNSON. That's cheaper than Ross Perot.

Mr. POMEROY. Thank you, Sarah.

Ms. VOGEL. Thank you.

Mr. JOHNSON. Turn now to the second member of this panel, that is, Dr. William Wilson, professor at NDSU.

## STATEMENT OF WILLIAM W. WILSON, PROFESSOR, DEPARTMENT OF AGRICULTURAL ECONOMICS, NORTH DAKOTA STATE UNIVERSITY

Mr. WILSON. Thank you. I'm a member of the faculty of agricultural economics at North Dakota State University and I teach and research in the area of international commodity trading and marketing.

For perspective, I received my Ph.D. from the University of Manitoba in 1980 and as a result of that I'm fairly familiar with the operation of their marketing system.

In addition to my university activities I'm a member of the board of directors of the Minneapolis Grain Exchange.

In these activities I have become pretty familiar with most of the issues related to this particular problem.

I point out in the text a number of causes that contribute to the in flow of Canadian grain into the United States. I won't elaborate all of those, except I want to elaborate on two in particular.

Prior to doing that, however, let me indicate how important it is. In the case of Durum this particular year we will produce less Durum in the United States than we consume domestically. That's the severity of the problem. And similar trends are occurring in other grains as well. A few years ago it was not viewed to be as great, but it certainly has escalated toward this.

One of the causes of this problem is the development in the European Economic Community, and I think any discussions at all of your committee should pay close attention to those developments.

In particular, to induce Durum production in these marginal regions of France, the European Community introduced special subsidies for Durum production called a Durum area subsidy. That was introduced about a decade ago and over the past decade has increased so that last year that Durum subsidy was equal to the equivalent of $88 per acre.

As a result of that there's been a very large shift in planted Durum in France so as to escalate it to the point that they have now become very large surplus producers of Durum. They export Durum to most U.S. markets regularly offered in North Africa and now currently regularly offered Durum sales in most South American countries.

The logic of this I point out on page 4 of my testimony and the reason why it's important to hear, is that expanded Durum production in France results in increasingly large restitutions to dispose of their growing surpluses.

As a result of that, pressure develops in the United States via EEP to retain our market shares. As a result of that, U.S. domestic prices become distorted relative to the international marketplace and as a result of that pressure emerges for United States to import Durum from Canada.

I point out another reason for these imports and I call this reason No. 4 and probably is the most important reason, it relates to the fact that the operation of their farm subsidy mechanism which is concentrated on $720 million going to the WGTA results in the abnormally low interior freight rates.

As a result of that we end up having—the principal flows of grain are in Canada for—to go to points at Thunder Bay and Vancouver. However, by removing those for that particular subsidy regime we would necessarily increase price differentials across the prairies and provide incentives for flows across the border.

I point these out in a map on figures 8 and 9 of my text and I do this for the following reason: Is that EEP is integrally entwined in this entire complex.

Figure 9 shows the application of what happens to geographic price differentials. These are actual prices that existed in the Northern American marketplace in the fall of 1992.

In this particular case we applied EEP of $25 per metric ton applicable to purchases of Durum off of the U.S. gulf coast.

As the proportion of EEP increases and/or bonus values increase, the incentive to move Durum or any other grain into the United States increases. Hence, we have a very complicated dilemma.

The combined influences of logistical cost differentials and the subsidy mechanism in Canada and the EEP have the effect of widening price differentials between these two countries.

As these differentials widen all of a sudden there's pressure incentive for sales from Canada into the United States. These pressures emerge from numerous areas including individual Canadian farmers, Canadian accredited exporters, U.S. flour millers, all seek to expand their purchases or sales of Durum into the United States.

I think what I want to illustrate here is that increasing EEP bonuses and/or proportional sales made under EEP has the impact of widening this price spread and in fact exacerbates the problems.

Higher loan values would have identical effects and I caution you of that because quite often that is discussed as an alternative.

Eliminating Canadian Wheat Board functions from these transactions likely would remove their ability to issue export licenses and would probably exacerbate the situation.

I point this out to you now because we had an announcement last Friday on barley which will probably, it's estimated, run an increase of exports to the United States of 900,000 metric tons.

As a matter of fact, part of the purpose of that was in fact to facilitate increased sales into the United States.

I guess the last point I'd like to make is that I studied this thing for quite a few years and had to speak to numerous groups about it. There's a lot of, what I would view, as shorter term attempts to solve the problem, many of which have been discussed here today, but I guess I would urge you as Members of Congress to think that longer term these causes are attributable to the inconsistency of the United States-Canadian policy mechanisms and their incompatibility with the free-trade regime that the United States-Canadian Free-Trade Agreement imposed upon us.

Imports of Canadian Durum are not the only problem. Other grains are affected similarly and many market functions in the United States, including our futures, exchanges, operation of export programs are disturbed.

Longer-term solutions to these problems must focus on efforts to try to harmonize and coordinate these two systems, or else I would suspect these skirmishes will continue indefinitely.

Certainly the experience of formulating the European Economic Community in 1957 as a trading block resulted in an immediate and concurrent effort to create coordinated agricultural policies in participating countries. We have not done this in the United States-Canadian Free-Trade Agreement nor is it proposed under NAFTA.

When formulating new policies and implementing existing policies an ultimate objective of increased coordination must be pursued. Further research is required in this area. We would describe it much further than that, however, a few observations should be made.

We rely upon EEP, loan values, all of which distort our markets artificially relative to the rest of the world. We rely upon set-aside programs, none of which are participated in by Canadian or Mexican counterparts.

The Canadian market system is highly regulated, centralized, and as a result gives many advantages operating in this environment.

My text goes into length on all of these points and I'd be happy to answer any questions at this point.

[The prepared statement of Mr. Wilson appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Dr. Wilson. The Chair cautions members of the subcommittee that in order to conclude on time, and have an opportunity for everyone to testify, that we're going to have to hold questioning down to a couple minutes each.

I do appreciate your testimony, Dr. Wilson, and it's sort of a testimony explaining the unintended consequences of ag policy in general. When we're dealing with EEP it's a little bit like trying to get the Rubik cube right. You think you have all the colors right on one side, you turn it around and you find you have confused things on the other side.

But I do understand and could oversimplify that the consequences of EEP and EC Durum subsidies are that the United States has abandoned the growing of Durum substantially and that the Canadians have filled that vacuum to a substantial degree. Their expansion of Durum exports into the United States has resulted in lower prices to the point that American farmers have simply quit growing as much Durum and that vacuum then filled.

Mr. WILSON. The price of Durum—as a result of this evolution, the price of Durum really indicates that North Dakota has evolved relative to other commodities that we're rapidly getting to the point—the only place that can profitably and substantially produce Durum is a very small region in northwestern North Dakota.

We have gone from a fairly wide production area to a very small and fragile area and I think anyone involved in the Durum industry, producers as well as marketers and consumers, are fully aware of that and are very concerned about that problem.

Mr. JOHNSON. It's fair to say that Durum is particularly not profitable on your better farmland?

Mr. WILSON. I couldn't speak to that.

Mr. JOHNSON. Most productive farmland?

Mr. WILSON. I would presume that's the case.

Mr. JOHNSON. Mr. Peterson.

Mr. PETERSON. You talked about the need to harmonize and try to get agricultural interests together, which it seems to me makes sense and we have been talking, as I said earlier, with some of our political colleagues on the other side of the border about the possibility of doing this.

Some folks in my area are talking about us establishing a wheat board or a barley board in the United States and then we could work with the Wheat Board in Canada and have a real influence on the market. What do you think about that idea?

Mr. WILSON. Well, in anticipation of that, I did highlight a little discussion of this in my text. However, I've been asked this before.

I guess the thrust here is to say that the reason why there's a common agricultural policy in Europe is exactly as a result of the types of things we're discussing here in this country and until we develop something like that I would suspect we're going to continue to have this problem.

That does not mean we should have a wheat board. As a matter of fact, I would be of the view that, first of all, our market system

is way too complex to think that a bureaucratic organization such as a wheat board, however it's administered, would ever be serviced more efficiently than is our current system.

My casual observation, however, would be that the Canadian system is probably—I'm going to say rapidly converging toward emulating some of the functions that are current in our market system.

They have studied, as an example, the WGTA freight rate problem since 1957. The announcement was made last Friday incidentally that this will be eliminated over a 4-year period of time.

That's probably a very radical change in the marketplace, which will exacerbate the cross board of flows in commodities into this country. Something you should be aware of.

I would say the barley announcement is pure and simple, a movement toward beginning to emulate our marketplace.

The imposition of the GRIP program there several years ago emulates to some extent our target price program. And on this particular point I gave a speech on this in Winnipeg on Tuesday. It was the first time that I sort of laid it out in public.

And subsequent to that, Charlie Mayer, who's Administrator of agriculture, was asked what he thought of the idea of initiating discussions toward harmonization of policies and he's the one who's in the process of dismantling the Canadian grain market system.

He was very receptive to it, however, cautioned that he's worked with seven different U.S. Secretaries of Agriculture in his tenure and he's not certain how it would all evolve.

Mr. JOHNSON. Mr. Pomeroy.

Mr. POMEROY. You have raised many very interesting issues and we're just going to have to talk. I want to, but for the next 2 minutes——

Mr. WILSON. That's the role of an academic——

Mr. POMEROY. I hear you. Well, it isn't easy for a Congressman to listen while working. I agree with you that the barley decision represents perhaps a step in some fundamental restructuring of the Canadian grain markets.

I believe that they might be attempting to—let me put it this way: Is it possible they are attempting to accomplish this in light of the present environment which gives them an extremely lucrative marketing opportunity into the United States in light of the Canadian Free-Trade Agreement?

Mr. WILSON. I would say there's two causes and I've read everything that went into those barley studies—I read in great detail.

I'd say there's two causes. One is there's a short-term problem in that there's a very wide—there's very lucrative opportunity for them temporarily in the United States. That will probably be eliminated within 2 weeks of August 1 when this begins.

Mr. POMEROY. Because of price falls——

Mr. WILSON. Correct. Long term, however, the underlying forces at hand is that we in this country have evolved toward a very traumatic rationalization of our chronic grain market system so that our handling margin and our handling and shipping costs are probably the most competitive of those in the world and are approximately one-fourth of those in Canada.

As an example, handling margins in the country and North Dakota are about 8 cents a bushel. They are in the area of 21 cents a bushel in Canada.

The long-term pressures that exist is they have not because of their regulations been forced to rationalize their marketplace as they occurred in this marketing system.

My suspicion is one of the reasons for the long-term move toward emulating our marketplace is realizing that theirs simply doesn't work and is not as efficient as it should be in the North American context.

Mr. POMEROY. One final question. I see my red light is on, but the—I agree with you that a free-trade environment contemplates coordinated systems. Do negotiations of NAFTA or did the negotiations of the Canadian Free-Trade Agreement take this sophisticated approach?

Mr. WILSON. I would say absolutely not in the case of the United States-Canadian Free-Trade Agreement. I think in the very aggregate context there was a notion of equalization of producer subsidy equivalents.

However, the definitions of those were very nebulous and as it turns out were not as fair to the United States as probably should have been the case.

In addition, the application of those in terms of particular regions, such as we're discussing here, particular commodities, was not very well thought out, I believe, from the United States' perspective.

Mr. POMEROY. Thank you.

Mr. JOHNSON. Thank you, Mr. Wilson. You're very helpful. We would call Mr. Alan Bergman.

## STATEMENT OF ALAN BERGMAN, PRESIDENT, NORTH DAKOTA FARMERS UNION

Mr. BERGMAN. Thank you, Mr. Chairman, and members of the subcommittee. I'm Alan Bergman, a farmer in southeastern North Dakota.

Let me start first with, Mr. Chairman, congratulations to you as the subcommittee chair. For some of us in this part of the country we're very appreciative of you holding this position and look forward to working with you. I thank you for coming to conduct this hearing.

Let me first go through a series of charts to demonstrate, and I see Congressman Pomeroy has some of those charts, on the U.S. imports of Canadian wheat. You can see the steady growth.

If you look at these charts quickly, the bar graphs at the end of my testimony, the trend lines are up. And you'll notice the last bar graph is for the first 6 months of this year.

So, that last bar graph if you were going to assume that it was going to double is going to be a dramatic increase, and that includes all wheat.

The next chart would just describe Durum and here again, the last bar graph is for the first 6 months and you can see where that has grown from zero up until now where we now have Durum, as someone previously mentioned, at about 25 percent of our domestic consumption.

And the last chart, let me say that as we look at the trend line between exports and imports, this is Durum production again, and here again, it shows our production which you can see on the top, but also our exports and our production has been erratic with environmental or climatic conditions and then also a trend line on the exports. The trend line is down.

Now, there's two problems that we're going to face in that from a policy perspective and that's your first question or one of your questions that we're to address is what do we do with end-use certificates.

It's absolutely essential in our mind if we're going to continue with this type of policy, we're going to have to have end-use certificates because we're using our farm policy, export enhancement and that to export Canadian Durum so that's also essential.

This last chart. The trend lines are just highlighted on there. So that would just outline that.

We look at that as—here again, with Durum, if we can just focus on Durum and Durum is only an example. You saw the wheat impact. We know what Mr. Wilson has said about the barley impact.

We're going to be impacted in all the grains along the northern tier, but just on Durum where the producer, and I representing producers are concerned about price, producer price for Durum historically was 10 to 15 percent as a premium to other classes of wheat, now we're at a discount of greater than that.

And you heard the statistics of what is going to happen this year. It's a demise of an industry that we cultivated and expanded as producers to a growing pasta, a growth of pasta consumption in the United States, all of that is a negative for us as producers, price wise.

Well, what are we going to do about it? We believe the most effective way to establish that level playing field between Canada and the United States is to implement a section 22. There's no question about it.

And why should we do that? Well, we look at Canada and even on the proposed NAFTA agreement Canada left behind certain parts of agricultural programmings.

Their dairy industry, their poultry industry, their—or basic poultry and eggs—their feather industry and the aggregate, was left behind because they are going to protect them under article 11 of the GATT.

A section 22 would be something that we could implement to put in that level playing field. We're asking for quotas and/or fees to protect the integrity of that board. That would allow our domestic farm programs to work.

If we do not do that we're going to have the increased use of export enhancement to move the Canadian wheats and we're going to have increased costs to our farm program because farm income has been on the Federal Treasury dollar.

Anyone in this room knows the problem we're going to have with the Federal Treasury dollar. It's going to go down. So we're going to have to find a way effectively to have a farm program that works for the domestic producer.

So that's where—everything that has been proposed and discussed at this meeting and other meetings that I attend, never fo-

cuses on what the impact has on the producer and the producer on both sides of the board.

All we can think about oftentimes, as I witness, is how do we destroy or take away an advantage of the producer in Canada. That's why I go back to section 22 that would allow our policies to work.

It would be a good policy because we're going to need something like that to hold farm program costs down and we're looking how can we increase farm income and protect farm income at the level right now because we cannot have any further hits to farm income. Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Bergman appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Bergman. What would you respond to a point that the substantial part of the Canadian growth of Durum imports in the United States is as a consequence of North Dakota, Montana, other farmers in this part of the country, simply not growing enough Durum and the Canadians are filling the vacuum?

Mr. BERGMAN. I think farmers—they are making a decision on a policy that has been implemented and in place and they are saying what Durum price is going to be—it's a difficult—agronomically it's more difficult for a producer to grow Durum than it is Hard Red Spring.

So why would we want to grow Durum and go through all that trouble, outside of there may be a niche area in this State as Dr. Wilson outlined in, in the north—in the Durum triangle that may maintain a Durum production, but the rest of the State, why would we do it? We're going to take less price for a more difficult crop to raise.

Mr. JOHNSON. On the end-use certificate issue, what would you say to those from the grain trade and others who would contend that it is already illegal, a criminal offense, in fact, to sell mixed grain and they would, I think, make an argument that there has been no track record of evidence of any EEPing of Canadian grain at this point.

Do you see the end-use certificate as a policy that would further assure that no mixing goes on or is this more a message to send to the Canadians that maybe gets your attention about not just end-use certificates, but the whole range of imports in the United States?

Mr. BERGMAN. I think, here again, your last statement first, that sends a signal to the Canadians, yes, that we're going to have a system similar to yours and we're going to track this.

Mr. JOHNSON. All purpose shot across the bow?

Mr. BERGMAN. Yes, but here again, going back to the trade, why does the trade oppose an end-use certificate? If they're saying that there's no problem with it why would they oppose it?

From a producer's perspective let me say this: I cannot honestly say that it's going to impact price and that's what I'm concerned about. An end-use certificate will not impact price, but it may protect the integrity of our programs that you establish as policy. That's why we're asking for end-use certificates.

Mr. JOHNSON. I was being a little bit of the devil's advocate with you, Mr. Bergman, but presumably they would argue there are ad-

ministrative hassles and costs for a problem that they would contend doesn't exist. On the other hand, there are other policy and single purposes for end-use certificates, and as you say, if there's no problem, then why not. But I appreciate your testimony and the red light is on. I would recognize Mr. Peterson.

Mr. PETERSON. I appreciate your testimony. Stepping back from all this, where do you think—I had the oats people in my office a year or two ago complaining that we're not growing enough oats and they wanted a Government program so people would grow more oats. I said if you just paid more you'd probably get more oats.

Now we're hearing we got the same kind of thing going on with Durum. We're lowering the price. People can't make it so we're quitting growing Durum.

Where are we heading? Are we going to give up all of these commodities? Are we going to become some kind of country here where we let everybody else grow our grain and commodities because they can grow them cheaper or they will grow them cheaper? Do you think that's where we're heading?

Mr. BERGMAN. Yes. Well, we represent a general farm organization, all commodities. We see that on all fronts going how can we originate the product the cheapest place in the world irrespective of all other concerns.

Mr. PETERSON. Do you agree with, and I think I agree with this, have you heard former Governor Sinner speak about how agriculture and energy should not be part of free trade?

Mr. BERGMAN. Yes.

Mr. PETERSON. Do you agree with——

Mr. BERGMAN. Yes.

Mr. PETERSON. Too bad everybody in this country can't hear that speech.

Mr. BERGMAN. Yes. I would concur totally.

Mr. PETERSON. Thank you for your testimony. We appreciate it.

Mr. JOHNSON. Gentleman from North Dakota.

Mr. POMEROY. Knowing the former Governor as I do, I'm sure he'd be happy to give it to everyone in this country at any time.

Proving up of section 22 for Durum, do you have an evaluation as to whether we could break out Durum separate from wheat?

Mr. BERGMAN. I believe not from our investigation, no, it's an aggregate. Understand that it's a problem, but let me first chart the growth of wheat imports. It's not an isolated issue just to Durum, and the barley issue will dramatically impact that also, so we have to look at all grains with the section 22.

Mr. POMEROY. That's very interesting. I thought of section 22 as barley because it would be easier to prove they are a smaller market, easier to show the market impact, but you're indicating with the cumulative effect of the increasing Spring Wheat now coming in and compounding what's been a catastrophe in Durum we may be getting critical mass in terms of being able to show section 22?

Mr. BERGMAN. Let me correct what I just said. Technically, I believe that you can separate wheat and barley on a section 22, but you cannot separate the classes of wheat.

Mr. POMEROY. Yes.

Mr. BERGMAN. I'm not the expert.

Mr. POMEROY. Although, we have a course of activity here which does help make the case. I mean I understand the proof was difficult in wheat because our market is so vast it's hard to show relative percentage increase, but with barley we are facing a very substantial dislocation of our markets.

Mr. BERGMAN. We believe the proof is there. We do not believe the political will is there.

Mr. POMEROY. We'll see if we can't do something about that.

Mr. BERGMAN. We'd appreciate your help in that. We have written, signed yesterday the second letter to Mr. Kantor and Mr. Espy on this very issue.

Mr. POMEROY. Alan, I'm worried about the impact of the budget cuts on farm programs. The committee imposed the additional 5 percent increase in flex acres as a way to realize savings in the farm program which we were mandated to reach by the Budget Committee.

This will increase the importance of farmers being able to commit some of their acreage to alternate crop production. Are you indicating that these practices of the Canadian imports, first in Durum, now in barley, might affect—oats, might effectively be taking away alternate production opportunities for farmers that are more important now than ever before in light of their increase flex acreage?

Mr. BERGMAN. Absolutely, especially with that individual who only has a wheat base and barley is the alternative crop and there are those in this State who will be dramatically impacted by this type of policy.

Mr. POMEROY. Is that a particular problem for North Dakota?

Mr. BERGMAN. Yes, it is.

Mr. POMEROY. No more questions.

Mr. JOHNSON. Thank you, Alan. All right. We will move next to Ms. Julie Bleyhl.

## STATEMENT OF JULIE A. BLEYHL, DIRECTOR, LEGISLATIVE SERVICES, MINNESOTA FARMERS UNION

Ms. BLEYHL. Mr. Chairman, my name is Julie Bleyhl and I am here today for David Frederickson, president of Minnesota Farmers Union. I serve as legislative services director for Minnesota Farmers Union.

Our organization represents 25,000 people who depend on family farming and the rural communities it supports. I appreciate the opportunity to testify before you today.

It is often said that liberalized trade will be a boon to U.S. producers. We're told that it will open new markets, expand others, and help farmers get higher prices for the commodities they produce.

To benefit from these new and expanding markets, international agreements such as the North American Free-Trade Agreement and the General Agreement of Tariffs and Trade have been negotiated on our behalf.

Approval of those agreements lies with Congress, people such as you who are supposed to ensure that Government and its programs function in the best interest of people.

For that to happen, the Minnesota Farmers Union believes that NAFTA and GATT must not be approved, even if side agreements are drafted that provide so-called fixes because both agreements are inherently flawed.

The proposed agreements do open markets, but they do nothing to protect U.S. producers from an influx of foreign commodities that cost less, are of lower quality, and don't meet the stringent food-safety regulations that U.S. producers must meet.

Creating a wide-open laissez faire system will reap economic disaster on this Nation's family farms, its rural people, and the food all of us farm and city folk eat every day.

Today, I would like to paint a picture of the potential economic damage that these trade agreements would create if approved in their current form.

The facts behind our experience with the existing trade agreement the United States has with Canada show that liberalizing trade does not help producers.

In fact, it does the opposite. It causes economic damage as foreign countries, even politically friendly ones such as Canada, use the provisions of such agreements to their own advantage.

Neither Canada nor any other country should be faulted for their action. Free trade means what it implies; an open market for everybody to compete.

But producers, per se, don't do the competing nor do they reap the economic benefits in a free-trade system. In the United States, five firms, with Minneapolis-based Cargill topping the list, control 46 percent of the grain trade. Any profits that grow out of a liberalized trade system will remain at the corporate level.

The market control of these companies is not limited to the United States. Other countries provide their producers with higher price supports. But even Government programs such as those don't and won't stop these huge multinational faceted food companies from using trade agreements to their own advantage.

Producers are dependent on market prices, prices that history shows follow the loan rate. Except in times of short supply, market prices remain at slightly above the loan rate. Such a practice keeps farm income low, but not low enough that producers can't find the economic wherewithal to keep pumping raw commodities into the system.

The fate of a grain company's profit and loss margin rests with a number of other factors, the least of which is the market price or the conventional supply and demand theory.

Although oversimplified, their grain holdings give them the ability to create market conditions, domestically or internationally, that allow them to follow the old rule of "buy low and sell high."

But the Minnesota Farmers Union believes that producers' ability economically to stay ahead of this game and keep farming is coming to an end with the advent of agreements such as GATT and NAFTA.

Both agreements are designed to help a company collectively move grain on the market rather than give family farms the opportunity to receive a price that covers actual production costs and provides an economic standard of living that approaches even an acceptable level.

Since the United States-Canadian Free-Trade Agreement was signed in 1987, Canadian exports to the United States have increased while United States exports have continued to decrease.

The numbers speak for themselves. Despite the fact that American farmers produced more wheat, United States exports fell by 300 million bushels from 1983 to 1991 while Canadian imports grew by 33.9 million bushels during that same time.

Free trade, a concept that producers hear about all the time, hasn't helped U.S. markets. Our exports continue to drop despite claims to the contrary that foreign markets are the hope for the future.

Minnesota Farmers Union does not contend that all we produce can be consumed domestically. But Congress, under any trade agreement, must ensure that the market trends of the 1980's and 1990's do not continue.

If Canada can increase its exports, the United States ought to be able to do the same so producers can benefit from these markets.

Yet, any trade agreement also must consider the impact imports have on U.S. producers, particularly here in prime wheat and Durum country.

Prior to the United States-Canadian Free-Trade Agreement, United States producers received a substantial premium for Durum since it was considered a specialty crop.

Since the agreement went into effect, the premium has disappeared and, for a long period of time, producers got a higher price for Hard Red Winter wheat.

Minnesota Farmers Union believes that the market impact described above was a direct result of the United States-Canadian Free-Trade Agreement.

Here in Minnesota, the Farmers Union fears that the same situation that occurred with Durum will happen with barley. But, unlike Durum, shipments of barley across the border will have a large economic impact because of increased volume.

Canada grows 25 percent more barley each year than the United States. Given the Canadian track record of using exports to its advantage and the Canadian agricultural Minister's decision to remove barley from the control of the Canadian Wheat Board, the fear is not baseless.

Such a massive release of barley across the border would strike another blow to producers already reeling from the Durum influx. The prices U.S. producers received would drop, sending already poor farm income even lower.

Imports of wheat and barley from Canada have caused a stir in Minnesota. Farm and commodity organizations supported State legislation this year that would have required a penny-a-bushel assessment on wheat and barley brought into Minnesota from Canada.

The assessment proposed was the same assessment that Minnesota farmers pay as a check-off fee for research and promotion activities.

Despite passage in both the State house and senate, Minnesota's Governor vetoed the bill. Actions such as this on the State level indicate that so-called free trade with Canada already has delivered benefits, but United States farmers haven't been the recipients;

rather, foreign growers and grain giants that buy their grain have been the beneficiaries.

The results of scenarios such as this is not difficult to see. As history has shown, Congress likely would revamp or eliminate farm programs to reduce spending.

The losers would be efficient family farmers who follow environmentally sound practices that preserve their land, resources, and the rural communities whose infrastructure and tax base depend on these farms for economic support.

The winners would be companies that use so-called free trade to their own advantage, which is nothing more than making sure the company profits keep growing.

I appreciate the opportunity to testify before you today and I'd be happy to answer any questions that you have. But, in closing, I want to emphasize that the Minnesota Farmers Union believes NAFTA and GATT would do more harm than good.

As the discussion continues in Washington on free trade, actual farm income continues to decline as do our rural communities and the people who live there.

At the same time, Cargill, a major player in the secret trade negotiations that produced NAFTA, continues its profitable reign atop Fortune 500 companies. That, Mr. Chairman, is free trade in action and the facts show that it doesn't work. Thank you.

[The prepared statement of Ms. Bleyhl appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you. In the United States we export over half of our grain and that is even with a substantial set-aside acreage and a massive 36-million-acre-plus CRP program.

You're not suggesting that we can rely exclusively on domestic consumption of American grain, is that——

Ms. BLEYHL. That's correct, Mr. Chairman.

Mr. JOHNSON. Do you envision sort of a global protectionist swing where each nation will shut out the agricultural exports of the others in order to try to force up the domestic price for their own farmers?

Where does that lead us down the road then if that begins to close off export markets?

Ms. BLEYHL. Mr. Chairman, I've had the opportunity to travel in some other countries in Europe and spend some time in Canada last summer and in looking at countries as they make fundamental decisions of who are we going to help I think that's what we need to be considering here.

In coming from a farm organization perspective we feel that that help ought to be support for farmers, rather than the continued emphasis that's within domestic farm policy. We have looked at EEP, and we as an organization have felt that that's been a help to the multinationals rather than to the farmers.

And if you look at overall in the direction that we're heading, we continue down this path within the United States pulling back support from our farmers, and other countries are continuing to figure out ways to try and help the farms and I think that's where overall and across the board with agriculture we need to make a fundamental decision who are we going to support.

Mr. JOHNSON. Mr. Pomeroy.

Mr. POMEROY. I reiterate the question that I just put to Mr. Bergman and ask—I'm less familiar with Minnesota agriculture.

Do you see the activities in the Canadian import phenomenon we have been talking about this morning adversely impacting the alternative use potential of your farmers under the flex program?

Ms. BLEYHL. Mr. Chairman, we look at continuing to make decisions again as to your set-aside, whether it be the acreage reduction program or whether it be flex and we look at the changes, yes, there are going to be substantial changes that farmers will make and that is definitely going to have an impact.

And we can look at the changes that will take place and how that will affect small farms as compared to large farms and that's been a general concern of our organization all along and any time there's opportunities, whether it be through flex or other options in and out of the farm program, the farmers will take advantage of whatever they can to improve that bottom line, but at the same time that's going to have ramifications throughout other parts of the program.

Mr. POMEROY. This is a little aside from the point, but as we wrestled with whether—how to obtain the savings that—how to make the cuts we had to make, we argued acreage reduction program versus flex, 2-percent acreage reduction program saved about the same money as a 5-percent flex, but ultimately the 5-percent flex was chosen over my objection largely because the majority sincerely wanted to give farmers alternative chances for using their lands.

That's a solid rationale, but if your most obvious options effectively don't have markets in light of Canadian grain import activity, it is a tough situation for our producers.

Ms. BLEYHL. Mr. Chairman, just to follow up by saying just given the situation that potentially could come about with barley that we watch it happen with Durum, I think the impact with that is going to be much more extreme.

Mr. POMEROY. I agree. Thank you for promoting me to chairman.

Ms. BLEYHL. Excuse me.

Mr. JOHNSON. Merely a junior member.

Mr. POMEROY. I've been suggesting it would be appropriate, but no one listens.

Mr. JOHNSON. That's all right. Thank you, Ms. Bleyhl, and we'll go next on the panel to Mr. Howard Schmid.

## STATEMENT OF HOWARD SCHMID, PRESIDENT, NORTH DAKOTA FARM BUREAU

Mr. SCHMID. Chairman Johnson, Congressman Pomeroy, and Congressman Peterson, thank you very much for coming here today to the grassroots. I'm a farmer from Oberon, North Dakota, which is in the north central part of North Dakota and I serve as president of the North Dakota Farm Bureau.

The Canadian Free-Trade Agreement has caused great concern for the future of the Durum and barley markets in the United States. There's been significant damage done to the U.S. Durum industry due to the market being flooded with Canadian Durum.

During the 5-year period from 1986 to 1991 Canadian shipments have increased by several hundred percent with the percentage

being much higher in the current marketing year. During the same period we have seen the average price of Durum decline significantly.

It's quite obvious that Durum producers have suffered due to the trade agreement with Canada. This similar market deterioration is possible with barley.

Dr. Collin Carter, at the University of California-Davis recently did a study for ag Canada. In that study Dr. Carter stated that there's a possible export market of 900,000 tons of barley.

This would lead to a substantial decrease in the price of barley and the timing of this is also quite significant to go into effect on August 1 which is harvest time in North Dakota, harvest time in Canada.

Many years we have a problem with shipping our grain with plugged elevators, with a shortage of boxcars, even if there isn't Canadian barley coming into my elevator in Oberon, North Dakota, the cumulative effect of the demand on boxcars and other parts of the system could affect my ability and the ability of many other farmers to deliver their crop at harvest time.

The policy of the American Farm Bureau is to support the use of EEP for all commodities in all markets where they face unfair foreign competition. The Mexican market is not excluded from this policy. We must ensure that we do not lose market share in Mexico due to unfair trading practices.

The United States must be prepared to counteract unfair subsidies by Canada, or any other country, with its own subsidies and we would hope that NAFTA would not prevent this action.

Earlier in my testimony, I spoke of the Farm Bureau's concern for the maintenance of our domestic markets due to the increasing amounts of grain being imported from Canada.

The influx of foreign commodities also threatens the well being of U.S. export markets; a market which had shrunk considerably in recent years due to expanded production and aggressive marketing by the EC and Canada.

I would hate to think that what our U.S. market share would be if EEP program was not available and utilized.

The 1990 farm bill very clearly states that only commodities that have been produced entirely in the United States are eligible for participation in U.S. Government assisted export programs.

The increasing amount of Canadian grain exported here by the Canadian Wheat Board and possibly in the future directly exported to our country by individual farmers and local Canadian co-ops fosters some concern that this foreign grain may be commingled with domestic production.

The ability of local grain pools and individual producers to market barley, as I just mentioned, multiplies these concerns.

Canada currently has a very stringent end-use certificate program that must be adhered to by those handling grains of foreign origin. The system tracks foreign grains from the time of entry to the point of final use and protects the integrity of Canadian produced grain.

Farm Bureau supports the adoption of a similar end-use certificate program in this country. End-use certificates should be re-

quired on all commodities where Canadians require similar documentation.

I cannot stress more the need to protect the integrity of U.S. export programs. If U.S. export programs are compromised or eliminated due to the inclusion of foreign grains, the farming industry as a whole would be jeopardized.

Again, I'd like to thank you gentlemen for being with us today and I'd be happy to respond to questions.

[The prepared statement of Mr. Schmid appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Schmid. North Dakota Farm Bureau supports the end-use certificate approach to mirror the Canadian use of certificates.

I'm not as familiar with each commodity that the Canadians apply this process to, but would there be some American crops that go out under EEP that would not be subject to end-use certificates because the Canadians don't require it on their side?

Mr. SCHMID. I don't quite follow the correlation there, Congressman.

Mr. JOHNSON. Well, what I'm saying is that you support a mirror end-use certificate approach. We would require end-use certificates on the same commodities if Canada requires it?

Mr. SCHMID. Right.

Mr. JOHNSON. But are there some additional commodities which we export under EEP which are not subject to Canadian end-use certificates to your knowledge?

Mr. SCHMID. I don't know. Really I don't compare this to EEP. I'm strictly talking about imports from Canada, that if the Canadians require end-use certificates on barley or on wheat or Durum from our country then we require the same on them. Presently we aren't EEPing into Canada, I don't believe. I believe it would be a little bit of a coal Newcastle situation.

Mr. JOHNSON. Now, the point I was trying to drive at, the reason for the end-use certificate is to prevent the commingling and the subsidization of Canadian grain.

But in any event, let me move on to another point and this is more of a comment than a question. And that is it seems to be requiring EEP to do a lot. I have supported EEP to Mexico, but we have about $1 billion budget for EEP. It has grown to that size.

We're under tremendous budget pressures not to get much larger while at the same time more commodities, particularly people who grow things other than wheat, are particularly anxious to have an EEP advantage themselves. Particularly the value-added side, the pork producers and so on, are very anxious to receive some EEP usage and so we have perhaps more demands on the use for the limited number of EEP dollars available to us than we adopt.

But in any event, I appreciate your perspective on an aggressive use of EEP and not just to Mexico, but to any other country where presumably unfair trade advantages are taking place and on the end-use certificate.

Mr. Peterson.

Mr. PETERSON. I'm just wondering if your North Dakota Farm Bureau supports end-use certificates. Do you know I thought the national was against them.

Mr. SCHMID. No. Our national policy supports end-use certificates.

Mr. PETERSON. They do?

Mr. SCHMID. In the case where the country such as Canada requires them we support on the national level end-use certificates reciprocally.

Mr. PETERSON. All right. Thank you.

Mr. JOHNSON. Mr. Pomeroy.

Mr. POMEROY. Howard, just a quick question, actual observation. In my years of working with the Farm Bureau in North Dakota on a variety of things, most particularly insurance commissioner on health insurance issues, but more recently on a wider array of ag issues, I detect sometimes a slight difference of perspective between the State organization and the national organization and I could only underscore how—I think along the lines Collin was getting at, I think it's extremely important that the North Dakota organization help the national Farm Bureau organization understand the concept of free trade so enthusiastically embraced by the national organization only works for North Dakota for American ag producers if it's fair trade. I don't think anyone knows better than North Dakota Farm Bureau members there can be some serious downsize to this application of free trading phenomenon if the agreements are fundamentally flawed in the first place.

So your activities within the national organization to try and help them have that perspective I think will be very helpful.

Mr. SCHMID. We do express those concerns, Congressman, but of course, the American Farm Bureau is a national organization, a general farm organization that represents interests from all over the country just as the Congress of the United States does and we speak our voice just as you do and hopefully we can make changes that would be beneficial to North Dakota, Minnesota, and this part of the country.

Mr. POMEROY. I have noticed in Congress I don't get my way all the time either.

Mr. JOHNSON. Thank you, Mr. Schmid. We will move on now to the second panel.

The second panel is composed of Robert Ibes, director of National Barley Growers and vice chair of the North Dakota Barley Growers, Eldridge, North Dakota; Dr. Neal Fisher, deputy director of North Dakota Wheat Commission in Bismarck, North Dakota; Mr. Lawson Jones, president of the U.S. Durum Growers Association of Bismarck, North Dakota; Mr. Noel Kjesbo, president of Minnesota Association of Wheat Growers, Red Lake Falls, Minnesota; Mr. Steven D. Strege, executive vice president of the North Dakota Grain Dealers Association in Fargo; Mr. Gerald Lacey, president of the National Barley Growers Association of Red Lake Falls, Minnesota, and Mr. Dan Lautenschlager, president of the North Dakota Grain Growers Association of Berthold, North Dakota.

Welcome to all of you.

And, again, we will follow the same ground rules with this panel. We will abide by the 5-minute rule for testimony so you may want to summarize your full statement, but your full statements are received in the record, but do whatever you're most comfortable with

the use of your 5 minutes and then we will turn to some questioning and so we will proceed with that with Mr. Ibes.

## STATEMENT OF ROBERT D. IBES, VICE CHAIRMAN, NORTH DAKOTA BARLEY COUNCIL, AND DIRECTOR, NATIONAL BARLEY GROWERS ASSOCIATION

Mr. IBES. Thank you, Congressman Johnson, Congressman Peterson, and Mr. Pomeroy. I'm Robert Ibes. I'm substituting for Brian Aanstad who couldn't be here today.

I operate a farm near Eldridge, North Dakota. My testimony today is presented as a barley producer. I feel my remarks reflect the thinking of all serious barley farmers.

I am vice chairman of the North Dakota Barley Council and a director of the National Barley Growers Association, an organization that represents over 75 percent of the U.S. barley production.

The courtesy of the General Farm Commodities Subcommittee members to meet today and listen to the testimony is much appreciated. My remarks will be confined to the problems, real and perceived, created by the predatory marketing practices of Canada in export of barley.

North Dakota is perennially the largest barley producing State. Our barley is marketed into many markets, the malting barley market, feed and food markets, and since the advent of the Export Enhancement Program, EEP, a stable export market.

It seems that no matter where we try to market our barley in recent years, whether it be domestically or overseas, potential buyers tell us the Canadians were already there, most often at a lower price.

Members of the North Dakota Barley Council favor free-trade. However, because of inequities built into the United States-Canadian Free-Trade Agreement, the barley council has opposed the agreement in its present form prior to and since its inception.

The recent decision by the Canadian Government to remove barley exports from the sole jurisdiction of the Canadian Wheat Board magnifies the impact of Canadian barley imports. Imports of Canadian barley depress United States barley prices.

At the same time Canadian imposed restrictions such as import permits, end-use certificates, and denaturing or dyeing of potential U.S. barley exports to Canada has essentially resulted in an embargo on U.S. barley and coproducts.

Predatory pricing and licensing of malt beverage imports by Canadians precludes our brewers being a force in that market.

Under terms of the free-trade agreement, Canadian malt beverage sales and distribution laws essentially remain intact. The net effect is to allow for a more fluid movement of Canadian malt beverages into the U.S. market while the Canadian market remains closed.

The Western Grain Transportation Act provides for substantial Government subsidies on grain moving via Canadian railroads. This subsidy allows the positioning of Canadian grain at export facilities at extremely favorable competitive prices.

Imports of Canadian malting barley have grown rapidly since the inception of the FTA. Now with the Canadian Government removing barley marketing from the sole authority of Wheat Board juris-

diction, growers are concerned the U.S. market will be inundated by Canadian barley imports, both malting and other barley.

This potential influx of Canadian barley has been estimated from 41 to 100 million bushels. Compare this against projected 1992/1993 barley imports of 12 million bushels. Imports of 41 million bushels are estimated to cause a drop in barley prices of 9 cents; an increase of 9 cents in deficiency payments of program bushels and an increase of 23 million for export enhancement.

Total cost increases due to increase in imports would mean $14 million loss in producer's income, $37 million in increased deficiency payments, and the increase of $23 million in added EEP.

These costs are estimated based on only a 29 million bushel increase of imports. Consider for a moment how the cost loss would escalate if 100 million bushels were imported.

Some suggested recourse tactics that we could see implemented where the U.S. negotiators assume a more aggressive posture in evaluating Canadian interpretation of the free-trade agreement.

The United States must review and require correction of inequities in the agreement. Of special interest would be negotiations to terminate the Western Grain Transportation Act subsidies on eastward movements of grain destined for export to the United States.

Negotiators must demand price transparency in the Canadian pricing system.

The inclusion of end-use certificates and/or certificates of origin for barley imported into the United States must be implemented to prevent entry of imported grain into the U.S. export grain stream.

USDA must aggressively use EEP to effectively compete with subsidized Canadian and other foreign grain imports in the U.S. off-shore markets.

An example would be the Mexican market where transportation subsidies move Canadian barley into export position and considerable discount compared to movement of U.S. grain into adjacent export facilities.

USDA/USTR must evaluate the potential of pursuing legal and/or other recourse avenues to address the unfair competitive situation enjoyed by the Canadians in the interpretation of current FTA regulations.

The North American Free-Trade Agreement is being readied for congressional approval. Informal reviews indicate potential hazards in the barley regulations. Most glaring is the opinion held by many that the tariff free quota of 120,000 metric tons assigned to the U.S. barley is not necessarily restricted to U.S. barley.

There appears to be interpretations that indicate that 120,000 metric ton quota is really a continental quota and Canadian barley could be used to fill quota needs as well as United States barley. This situation is intolerable and an origin of quota barley must be specifically stated.

Some students of NAFTA are of the opinion that not only will it not be restricted to the three countries currently involved, United States, Canada, and Mexico, but eventually could be interpreted as a hemispheric agreement including South and Central America and even Australia. This could be a disaster in marketing.

I thank you for the opportunity to come before you. If I could answer any questions.

[The prepared statement of Mr. Ibes appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Ibes. I'm going to have a couple phone calls I need to make. I'm going to turn the gavel over to Mr. Peterson of Minnesota just momentarily, but I do appreciate your testimony.

Mr. PETERSON [assuming chair]. Thank you. Congressman Pomeroy, do you have some questions?

Mr. POMEROY. Thank you, Mr. Chairman. The meeting yesterday that I had in Minot with the barley producers I learned to my surprise that it was the first year in many years that brewers had not awarded advance contracts for barley. Is that your—is that true?

Mr. IBES. Yes. Up until last year Anheuser-Busch, for instance, was a big player in contracting production barley and mainly that came about through the 1988 program. Western States have always had contract options.

Here in North Dakota they haven't been exploited until Anheuser-Busch more or less came into play on contract price. But last year they elected to eliminate them entirely.

Mr. POMEROY. For the 1993 growing season?

Mr. IBES. That's right. Last year we had protection under contract price. This year there is no protection.

Mr. POMEROY. I notice in your testimony you mention or you hint that the recent announcement on barley probably has not brought tears to any brewers shopping for very low price components, barley, for their products.

Mr. IBES. Definitely. In fact, one of the members of our staff was in Canada last winter, and one of the malting brewing companies said that they could have imported another 10 million bushels of Canadian barley which—by the way, it was blue barley that they were interested in, blue six row. And probably the most common barley grown in North Dakota is azure, which is a blue aleurone barley, and it has a very narrow window of opportunity to sell into the malting market and yet they were willing to go up there and buy 10 million bushels on the Canadian side.

Mr. POMEROY. Last question, Mr. Ibes. Do you think that the failure of brewers to award 1993 contracts was in anticipation of this move by the Canadian Wheat Board to allow direct marketing of barley and, therefore, result in lower prices next August?

Mr. IBES. I think that's the way it ended up, but basically I would say that Anheuser-Busch was such a big player in contracting barley that he was being penalized for contracting it at a higher price than the other maltsters could buy on the open market.

Mr. POMEROY. I see. It could have been that just as much as any planned destined anticipation?

Mr. IBES. Probably.

Mr. POMEROY. OK.

Mr. PETERSON. Do you think that they knew ahead of time that this was coming?

Mr. IBES. I would anticipate that Anheuser-Busch is probably as perceptive as Cargill in knowing where their product is coming from and what they'll have to pay.

Mr. PETERSON. Thank you, Mr. Ibes. We appreciate your testimony.

Mr. IBES. Thank you.

Mr. PETERSON. Next we have Dr. Neal Fisher, deputy administrator of the North Dakota Wheat Commission.

## STATEMENT OF NEAL H. FISHER, DEPUTY ADMINISTRATOR, NORTH DAKOTA WHEAT COMMISSION

Mr. FISHER. Good morning, Mr. Chairman, members of the subcommittee. I see that my academic rank has moved up one notch. I do not possess a doctor's degree so I'll just clarify that right off the top.

I do appreciate, however, the opportunity to appear here this morning to represent the 35,000 wheat producers of North Dakota as the market promotion agency for those individual producers.

You've heard a lot about the movement, the increased movement of Canadian non-Durum and Durum wheats, and barley into this country. This certainly has been an injurious situation, and I think probably the most significant factor here is the rapidity by which this chart has increased or the growth of the curve on that chart.

However, many policymakers in Washington remain unaware of the seriousness of the situation and that fact is particularly troublesome when you have a NAFTA text which is being pushed by many of those same individuals and Government agencies.

And it's particularly disturbing when we find that many of the people that are pushing this agreement have really no understanding of how significant the problem is. Under such casual observation, the dramatic impact is missed by many of these policymakers.

Durum imports will reach an estimated 26 million bushels in the current marketing year. The vast majority of that, of course, originates in Canada. This year's import volume is equivalent to 27 percent of the domestic market.

To make that point a little clearer, we find that we're going to have about 58 percent of our total export move negated by this influx of Canadian Durum.

The impact on producer prices and incomes from this invasion is obvious. There is not a domestic producer or manufacturer of any product in this country that would not protest at the highest levels if its market share was intruded upon in such a dramatic manner in such a short period.

Next year Durum imports are expected to reach an estimated 30 million bushels, further eroding U.S. Durum producer's share of their own domestic market.

Durum is not interchangeable with other wheats commonly used for bread production. With these specifically defined end uses, for pasta production only, significant imports from any source constitute serious and absolute displacement.

Prices have eroded and, therefore, producer's enthusiasm for producing Durum has declined accordingly. This trend threatens the very survival of the industry.

Ironically, the U.S. pasta industry is growing rapidly at this time. Normally that should imply some level of prosperity for the producers out here and higher prices. That, however, has not been the case due largely to this rapid influx of Canadian Durum and non-Durum wheats.

Mr. Chairman, my written testimony contains attachments which depict an increase in Durum acreage in Canada to address potential market opportunities in the world including the U.S. market; the contrasting shift in plantings from Durum to Spring Wheat in the United States; the rapidly increasing movement of Canadian Durum and non-Durum wheats to U.S. destinations; all of them are depicted in charts there and these abnormal pricing relationships that were developed in the last few years.

These charts document dramatic increases in Durum imports and significant increases in imports of non-Durum wheats. I think that's a very important point here that we tend to sometimes focus on Durum or barley, but the problem is expanding to include other wheats and other grains as well.

The Wheat Board has obviously targeted the U.S. market as a viable cash market for Canadian wheat and Durum and is willing to employ any and all of the subsidies that they do in a lot of the other markets that they market successfully around the world. The U.S. Government must challenge these practices.

U.S. producers were apprehensive at best when the United States-Canadian Free-Trade Agreement was negotiated, but we were routinely told that many of these obvious flaws would and could be corrected in the GATT negotiations or possibly in this broader scope of a NAFTA agreement.

Their apprehension has now turned to bitter disappointment. There is no evidence whatsoever that the current NAFTA text or the Dunkel draft text of the GATT agreement do anything to alleviate these serious problems.

The weak attempts at side agreements addressed primarily labor and environmental issues and do very little to recognize ag, let alone the concerns of Durum or wheat producers in this country.

Under the Wheat Board control, pricing of Canadian wheat for export remains highly secretive and there is absolutely no concept of price transparency whatsoever. The Wheat Board routinely observes our prices, then cuts a deal with the prospective customer. That also is happening in this market and in the Mexican and Venezuelan markets.

This obvious price negotiating authority gives them a distinct price advantage in offering wheat to some of the lucrative markets that are available in this expanding world market.

The Canadian Government also pays transportation subsidies and allows the wheat from Canadian producers being moved to market at significantly less burden to him than his U.S. counterpart.

These subsidies have also been labeled erroneously, we feel, under the dispute panel and under the FTA as domestic subsidies.

I think anyone can see that when these subsidies are used to position wheat at Thunder Bay, which is often the routing that this wheat takes when it moves into the United States. It obviously then becomes an export subsidy rather than a domestic subsidy.

There's a serious threat that the gross inequities created by the lack of price transparency and other marketing practices of the Canadian Wheat Board and the rail subsidies could be grandfathered into perpetuity by the current NAFTA text that is being considered at this point.

U.S. wheat producers cannot accept or support NAFTA under these circumstances, despite the potential for additional market opportunities in Mexico.

The Canadians have currently captured about 75 percent of the market and we feel that those practices will go on while we stand by and watch our market that is just offshore being addressed by another party.

The negative effects of increased imports and the unfair trading practices of the Wheat Board in third country markets are serious in their own right, but the negative implications go beyond threats to production and profitability of the U.S. wheat industry.

The net effect of these unlimited imports is the virtual gutting of our own farm programs. We find that there's very little impact from any level of set-aside when you have this unlimited availability of wheats just across the border that we found by bitter experience. They can move in here very easily.

Increased imports also threaten the sanctity and effectiveness of our export problems. That has already been discussed here this morning so I think I'll dispense with the basics of that topic and just say that we do favor end-use certificates.

We feel that the Canadians have such a program in place and we think it only makes sense that much of the sanctity and effectiveness of our own programs, domestic and export, that we take measures to do this.

I'll conclude by saying that I think we also need to look very strongly at EEP measures that might help to get the Canadians attention.

Hopefully we have been able to get the attention of a lot of the officials in Washington so we do think that Mexico, Venezuela, and a number of other markets should be included in this next EEP package to send a firmer signal to not only the Canadians, but to other competitors/exporters in the world that use their own version of subsidies.

I appreciate the opportunity to appear here. If we can do anything to clarify any of my remarks or answer any questions that we may not have addressed here, I'd be glad to try to do that.

[The prepared statement of Mr. Fisher appears at the conclusion of the hearing.]

Mr. JOHNSON [resuming chair]. Thank you. We appreciate your testimony. When I listen to the frustrations that we all share about the Canadian subsidies I'm reminded a bit of the Australian growers that I've hosted in my office, over the last few weeks, who take the same point of view about American subsidies. And so you wonder where the circle comes to an end.

But let me ask you on the price transparency issue. What's the best mechanism for pursuing price transparency that would be satisfactory to you in your organization?

Mr. FISHER. Well, this is a very complex issue and, of course, we find it very frustrating for our producers to know that without our EEP program we'd be unable to compete with them at all. We hear it from export customers all the time that the standard routine is to find out what the U.S. price is and for the boards to come in and offer a price at $2, $3, or $5 a ton less.

The obvious clear conclusion there is I suppose for someone to call for the elimination of the Canadian Wheat Board. I don't think that's possible any more than it is possible to call for the creation of a wheat board in this country so it's a very difficult issue.

I think that there's been a lot of academic brain power studying that very issue as to how to address that. I do not have an answer as to how to address that one, but I think that there can be further work done to move toward that process.

Mr. JOHNSON. I will yield to the gentleman from Minnesota.

Mr. Peterson.

Mr. PETERSON. We have, as I mentioned earlier, been discussing with the Department bringing a section 22 action and apparently I've been informed that now they are saying that it may take as much as 1 year before they can figure out whether—what's going on here and in fact impacting our domestic agricultural program.

From your testimony it sounds like it's not going to take you a year to figure that out. Is that true?

Mr. FISHER. I think that it's fairly obvious that when you have the availability and the increasing availability that seems very obvious in the numbers of wheats from foreign sources coming in, you have eliminated or at least severely handicapped your own farm program to influence either supply control or influence prices in your own domestic market. So I think that's part of the grounds for such a case.

Mr. PETERSON. Have you folks been talking to the Ag Department about this?

Mr. FISHER. Yes, we have. For several years, in fact, and, of course, as the numbers get more interesting the people in Washington have tended to become a little more interested as well.

Mr. PETERSON. Is it your judgment that this is being fairly seriously considered at this point?

Mr. FISHER. It's always difficult to gauge how seriously, but I think certainly the amount of interest and the inquiry has increased.

One of the things that I think we find frustrating as well is the audit process that is sometimes prescribed, the disappointment of the panel process and a lot of the disappointment there comes because the Canadians basically didn't provide the information that was necessary to come up with a good analysis.

So when we talk about an audit process or some such method of defining what their prices are, we don't have a great deal of faith in that.

The International Trade Commission says we did a very poor job frankly of identifying that and that's one of the cruxes that's continued to be used in these debates in the panels such as the Durum dispute panel which we just experienced.

Mr. PETERSON. Thank you.

Mr. JOHNSON. Mr. Pomeroy.

Mr. POMEROY. One quick question. Aside from whether the USDA and USTR are getting increasingly interested in bringing a section 22, I'm also concerned about the proof issues and do you think that the continued flagrant export activities of the Canadians have given us now a factual case in terms of proving up a section 22?

Mr. FISHER. Well, I think the numbers fairly well speak for themselves in terms of the market intrusion or the damage in that manner. There have always been the arguments on the point of cause and effect.

We feel, producers feel that its because of the invasion of the Durums, the barleys, and non-Durum wheats that have come in that have depressed our prices.

There will be others that will turn that and say some other factors are involved and certainly there is the case to be made that there are a number of factors in place to get into the international trade arena.

But I think that increasingly we have a better and better case as we look at the numbers and I think as more people are convinced that the Canadians do use their own brand of subsidies and for far too long the Wheat Boards, Australia and Canada, have been excused of any wrongdoing, if you will, in this GATT process or any of the others. They have been tagged as——

Mr. POMEROY. The good news is EEP keeps stronger. The bad news is our market keeps getting worse.

Mr. FISHER. That's correct.

Mr. POMEROY. No further questions.

Mr. JOHNSON. Thank you, Mr. Fisher. Next, Mr. Lawson Jones.

## STATEMENT OF LAWSON B. JONES, PRESIDENT, U.S. DURUM GROWERS ASSOCIATION

Mr. JONES. Thank you, subcommittee members, for having this opportunity and thank you for coming to the country and witnessing that people still do live here.

My name is Lawson Jones and I'm currently serving as the president of the U.S. Durum Growers Association.

We heard Dr. Wilson testify, a very interesting testimony, and we regularly invite Dr. Wilson to our international Durum forum in Minot. We just had a board meeting June 10.

And we looked at the situation. We heard the numbers. We're going to consume more Durum-based pasta or pasta in this country than we're going to grow. That says a lot.

So over the years we have been engaged in a legal warfare with Canada. If you look at the situation that's very difficult to win when you consider the system at hand.

It's the U.S. producers versus the checkbook of the Canadian treasury and Canada has repeatedly said that it's not what's fair, it's what you can negotiate. They have the resources of the Wheat Board and really an arm right into the treasury of Canada against us producers, I mean the U.S. Government has asked producers to step forward and accept free trade, go into international markets.

We have attempted to do that, but frankly we have been mugged and our Government has been quite benign to our concerns.

I think most blatant was Mr. Yeutter's statement to the Taylor Brown network in Montana years ago that, yes, you're on your own, go ahead, get some legal assistance and fix it so we look at this as let's think about having the market fix it and so we suggest a marketing loan, different than a regular loan, but a marketing loan. We would like to see $4 a bushel, but would accept $3.50 a

bushel and that would certainly stop Canadian imports real quick. We have talked to USDA about that.

They said that it's a budget buster. We say, no, if you combine what's spent on EEP and what's spent on deficiency payments, currently, it's very—little difference and what's the long term.

The long-term is that we bring back some of that hundreds of millions of dollars of lost market share back to our producers and we—they also—USDA also says, well, you have to have some acreage control, controls so, well, maybe you would, but we say—that the producer be allowed to seed 105—one-half percent of their 5-year Durum acreage history.

In other words, trying to gain back some of this 66 percent loss that we've seen over the last 12 years in the market and acreage for Durum.

North Dakota Ag Extension Economists concur with us that the difference between marketing loan for Durum and that the combination of deficiency payments and EEP for Durum, that there would be little difference in the budget impact.

Under that system the producer's marketing skills would have to step up a notch. The producer would have to pick the high of the market and the low, but there's more opportunity and could rectify it much more quickly raising imports of Canadian Durum.

I mean we had the GAO study. We had the ITC study. We had the binational panel review. What was the timetable for that? Now we're talking about section 22. What's the timetable for that?

I guess we're not arguing that we should diminish our legal efforts. I mean we should attempt to hold our ground, but to expect to win overall I think that maybe a marketing approach would be the approach that would result in a better situation more quickly.

As far as the NAFTA agreement, we argue that it puts in place trade barriers where there were not trade barriers before.

As far as EEP to Mexico, yes, I guess the shot across the bow we would hope that that shot would land on the bow instead of across. Thanks again.

[The prepared statement of Mr. Jones appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you. The House Ag Committee of the U.S Congress did include some marketing loan options in the Omnibus Budget Reconcilation Act of 1990, which can be implemented administratively and largely has a signal to our GATT partners, at this point hasn't really been utilized. There are some cost concerns as well as some other policy concerns, but I do appreciate your observations in that regard.

Mr. Peterson.

Mr. PETERSON. In the absence of time——

Mr. JOHNSON. OK. Mr. Pomeroy.

Mr. POMEROY. Also, I want to make sure we get through all the witnesses, Mr. Chairman, so in light of the time constraints I'll forego questions I have of Mr. Lawson. Thank you.

Mr. JOHNSON. Thank you. We're running a little tight on time, given the number of people who want to testify at the conclusion of the hearing, so if we move along here at a little increased speed, I hope you understand that. Mr. Kjesbo.

## STATEMENT OF NOEL J. KJESBO, PRESIDENT, MINNESOTA ASSOCIATION OF WHEAT GROWERS

Mr. KJESBO. Mr. Chairman, Congressman Peterson, and Congressman Pomeroy, welcome to the land of love and lutefisk. We appreciate——

Mr. PETERSON. Do you have some——

Mr. KJESBO. I'll defer my portion to you, Collin. You can have my——

Mr. PETERSON. I like it.

Mr. JOHNSON. I'll take the lefse and leave the lutefisk.

Mr. KJESBO. What that does is to increase my respect for the common sense of South Dakota residents, Tim.

Welcome to Minnesota though. Sincerely, we want to thank Collin for bringing you here and Tim and Earl for taking your time. This is a heck of a big issue for us. I guess you've heard that. You're going to hear it some more.

Before I give my general comments, so much of what I wanted to say has been said. I want to give a little overview for you and I'm going to race through this.

In 1980—I believe 1987—Representative Dorgan brought Sam Gibbons to Fargo, I believe to the Radisson Hotel, the chairman of the Subcommittee on Trade with the House Ways and Means Committee. And at that time I was asked to give testimony for our organization in opposition to the free-trade agreement and we did so. It turned out we were—both Byron and us I think were prophets.

We remain opposed. We are currently opposed to NAFTA, Mr. Chairman, because of the traditions and the inequities in the free-trade agreement as negotiated by our former administration.

I want to also comment to you that I can feel in our association, our board, I can feel protection isn't rising. I can feel it. I can feel it in our meetings. The more that we learn about the Canadian practices and the reluctance of our Government to do anything about it I can feel it. It's getting more and more obvious.

I also want to say that our concerns are not—don't have to do with the Canadian producers. We have here two systems that are essentially incompatible. We have oil and water really.

Our problems, we are envious of the Wheat Board's ability to sell to Cuba all these years. They are selling to Libya. And, Tim, you could probably help me on some others. They are selling to places that America can't sell.

We think that's good. We think we have—America has not made a statement frankly by not selling to Cuba. We have noticed they are still getting wheat. They are still eating bread.

They are structurally advantaged to us for those reasons and so in some ways we are desirous of some of the things that they have been able to do over the years.

I want to—if the slide is ready I'd like someone to put the first slide up. The overall—I don't mean to crane your neck there, members of the committee, but Minnesota used to be a mill State. We were known as a mill State for years. I think it was even on a license plate for awhile and Minneapolis used to be known as a mill city.

But I want you to see one of the largest mills owned by a multinational. We have a number of mills in Minneapolis, very large

successful companies for the most part. In some ways those companies are our friends and other ways they are not our friends. All the semi's you see here are all from guess where, Canada.

You can notice the cloverleaf on some of them. I don't think this one has a cloverleaf, but I want you to pay attention to how clever wheat comes into Minnesota. That ain't a hopper trailer. That is a reefer. And there was wheat in that reefer.

The amount of wheat coming into Minnesota is frankly hard to predict, Mr. Chairman.

Our organization spends more and more time in St. Paul in the winter and one of the things Minnesota has done is to provide rest areas along the freeway and so as sort of a real side hobby I've taken to cruising in and out of rest areas. You would not believe the Canadian transportation devices sitting in rest areas going to and coming from St. Paul.

Once again, I think we have to say that I respect the cleverness of the Canadian system. They are indeed clever. They are worthy opponents. And I want to share those general comments to you before we start.

I am Noel Kjesbo. I farm near Wendell, Minnesota. Currently serve as president of the association. We currently have about 1,000 wheat growers in Minnesota that are members. We figure there's maybe about 950 of those that aren't happy, but that's just an estimate.

I'd like you to imagine, for a moment, how you would feel as a producer seeing a foreign Government in the truckline ahead of you selling wheat to your local elevator or your best customer willing to take a lower price for their grain than you are for yours.

Imagine unit trains filled with foreign grain roaring past your own grain bins, headed for customers that should have been yours given a closer market proximity.

Now, quit imagining this and meet Canada, the great garage sale wheat exporter. I call them the Wal-Mart for wheat.

The transportation subsidies, advantages built in through the 1989 United States-Canadian Free-Trade Agreement, secret, manipulative pricing, and the ability to openly review those posted prices in our country and the Board of Trade of the United States have given Canada and its Wheat Board a virtual diving board into our domestic and traditional wheat markets.

In the 1982/1983 marketing year, not that long ago, we imported 4.7 million bushels of wheat, all classes, into the United States virtually all of it from Canada. That amount has risen to a projected 60 million bushels in the 1992/1993 marketing year.

The USDA projects that in the 1993/1994 year wheat imports from all sources, with the vast majority from Canada, will climb to 75 million bushels.

Given that trend it is conceivable that 100 million bushels of wheat will be shipped into the United States by the year 2000. That will roughly match the yearly output of the Minnesota wheat product.

I'm going to just highlight the next paragraph, because it is kind of unusual, so that members of the panel can understand how creative and how truly difficult it is to understand how much is coming.

We believe, although it's difficult to determine, that more grain is coming across the U.S. borders than is currently reported, given the difficulty of tracking wheat sold through the Canadian Wheat Board and increased direct sales outside typical marketing channels.

For example, last fall a police officer stopped a truck, a semitrailer, with Canadian plates for a traffic violation in Hallock, Minnesota, which is about 20 miles from the Canadian border.

The officer asked what the driver was hauling. The driver said the cargo was fertilizer. The officer inspected the cargo, however, and found wheat. The truck was turned back to the border and fined. It's a real story.

Canadian imports add to our carryover. I think that's been discussed. The impact of these imports to our taxpayer through deficiency payment obligations and so on I think has been adequately discussed earlier.

The Mexican situation is a travesty, and I think in the essence of time I will say that I want somebody to tell me how you can get wheat from Saskatoon, Canada, to Mexico cheaper than you can get Oklahoma wheat to Mexico. I want to know how that's done.

I don't envision any oceangoing barge that can get wheat from Saskatoon somehow to Mexico City cheaper than we can deliver Oklahoma wheat to Mexico City.

We view the EEP process that is available to us as essential and we would like it to land on the bow as well, Lawson.

One thing I would comment on is the essence of exports since we have decided that set-aside does not work when you have a Canadian Wheat Board as an opponent.

It's useful to point out that the Chief of Commerce for USDA told us years ago that for every point lost in market share of exports, traded wheat in the world, there's roughly a dime impact to the market price.

At the high we had about a 50-percent market share I think, Neal, if you can help me on that, of traded wheat in the world and I think we bottomed out somewhere in the twenties, at 25 percent or so. I think we're currently in the middle thirties.

If you take the extreme from a 50-percent market share to let's say a 30-percent market share, that's 20 points, take that times a dime, you have an impact of a couple of bucks a bushel so you see exports matter just as much as imports matter.

The problem is we're transferring Canadian imports and we think as an association the value of exports is being diluted.

Now, our membership is not appreciating the value of exports when you have the size of Canadian imports coming into our country.

FAS people in DC have told us that contrary to what the past administration said, EEP can be used as a marketing tool.

It doesn't only have to be used as a negotiating item. It is available to our Government as a marketing tool.

For those reasons, we would like EEP used aggressively in Mexico, Venezuela, and other areas where frankly Canada is eating our lunch.

Included in our written testimony is page 501 of the 1990 farm bill which refers to answering unfair trade practices.

Language under title III, section 302 says, "The secretary shall carry out EEP to discourage unfair trade practices by foreign countries and to encourage the maintenance, development, and expansion of U.S. export markets. Export incentives shall be made to the extent necessary to counter or offset the adverse effect of unfair trade practices. Priority should be given to sales in traditional markets for U.S. commodities."

Let's use EEP as a marketing tool. Let's get serious about exports.

Item 2, we do endorse the use of end-use certificates and I think that's been covered earlier. If Canadians are going to do it, we should do it.

And Item 3, we think that if the "Crow's Nest" is transferred to a producer subsidy we really haven't the fixed issue. All we have done is moved it. All we have done is shifted it. So we would favor the resolution of the issue, not the shifting of it.

We do oppose NAFTA, as I said, as long as the current rules are in place from the FTA. We hereby would like to officially ask for a study, Mr. Chairman, and I believe Representative Peterson is on board on it so I don't think it was at his encouragement, but we would like to call for a study on feasibility of incorporating a GRIP program which is endorsed in Canada or a similar program in the United States.

Such means may put the U.S. producer on more equal footing with advantages that are available to the Canadian Government. We'd like to officially request that.

Item 6, we'd like to actively pursue with Canada to establish equitable grain policies. As Collin mentioned he's meeting with them. We're going to be meeting with them. Let's see if we can work something out even if it has to be individually.

Item 7, we are seeking any method including section 22, Mr. Chairman, proceedings, antidumping options that might be available to us until the resolution of this—what we are calling a massive import surge. Until that's resolved we are endorsing anything like a section 22 action.

I think in conclusion—many of the things that are in my last couple paragraphs there have been said.

We are at a watershed in many ways with agricultural trade and a lot of these issues are a moving target. We appreciate your help in helping us to find these issues.

[The prepared statement of Mr. Kjesbo appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you. I participated in Byron Dorgan's hearing in Fargo some years back on the Canadian Free-Trade Agreement. It was good to have Sam Gibbons along, who's probably the foremost free-trade advocate in the House of Representatives. He is next in line to be chairman of the Ways and Means Committee, which controls trade policy, if something were to ever happen to Mr. Rostenkowski. I think it was good to have him out here to get some different kinds of perspectives.

I share your interest in EEP, however, there are an awful lot of people in Congress around the country wondering why one nickel gets spent on any subsidies for any sector of the economy.

So we have our work cut out for us in regard to public taxpayer subsidies to the ag sector, but I agree we need to be aggressive. I would recognize Mr. Peterson.

Mr. PETERSON. We're running short of time, but I may or may not be aware of it, in the reconciliation there is a pilot project that's been put in there for a revenue insurance program for Minnesota, North Dakota, and Mississippi.

The Secretary is interested in this as well, and so it looks like we're going to have a pretty good chance of getting that done. We don't know exactly how it's going to work, but you'd have the option of getting into this revenue insurance program as opposed to being on a regular crop insurance so it wouldn't be mandatory, but it would be something that we could try out, so we're hopeful that that will get put together sometime over the next few months and be available for the next crop year.

The other thing is whatever we all—we're going to have to probably sit down and focus a little more on how we're going to prove up this section 22.

I think that this is probably our best avenue in the long term and from what I can tell we're going to need to somehow or another get some more information or ammunition, if you will, to the Secretary to try to move that along and we'll have to work together on figuring out how to do that.

Mr. KJESBO. Be glad to help you, Representative Peterson.

Mr. JOHNSON. Thank you, Mr. Kjesbo. Next we will have Mr. Steven Strege, who is taking the place of Mr. Kringlen who originally was on the panel, but we're pleased to have you here with us today, Mr. Strege.

Mr. STREGE. Yes, Mr. Chairman, thank you, and Congressman Peterson. I'm the executive vice president of the North Dakota Grain Dealers Association, but I'm not here testifying on behalf of that organization today.

I got a call yesterday from Mr. Kringlen and he said he couldn't come and he asked me to bring his testimony over and that has been submitted so the red light isn't going to come on for me this morning.

Mr. JOHNSON. We appreciate that and I want to say with all sincerity that we will be reviewing the testimony very carefully and a copy of it will go back to Washington with us to share with other members and with the staff.

Mr. STREGE. Very good.

[The prepared statement of Mr. Kringlen appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you. Mr. Gerald Lacey.

## STATEMENT OF GERALD A. LACEY, VICE PRESIDENT, NATIONAL BARLEY GROWERS ASSOCIATION, AND PRESIDENT, MINNESOTA BARLEY GROWERS ASSOCIATION

Mr. LACEY. I'll try to stay away from the red light. Mr. Chairman, I'm Gerald Lacey. I'm a barley grower from the Red River Valley near Campbell.

I'm currently president of the Minnesota Barley Growers and vice president and president-elect. Next week I'll become president of the National Barley Growers. Looking forward——

Mr. JOHNSON. Never know whether to say congratulations or condolences, but I think it's congratulations.

Mr. LACEY. But that organization does represent—we would have six States and we do have 75, 80, 85 percent of the barley grown in the United States. I also have a few slides.

With the trucks with the maple leaf on the side and those—but not only that there—our product is coming in by the train load I'm afraid. Not as many trucks because the maltsters are using the rail facility which is the way they are geared to receive. So a train load gets to be big time.

And as far as I'm concerned, it's a panic situation for the maltsters, for the malting barley producers in the Midwest and in the United States as a whole.

We have to do something to address the situation and I think it has to be drastic. You have my written testimony and part of it has—a good share of it has been covered.

But I think that we need to do something very drastic and as a representative of Minnesota and personally I would like to put the barley growers on notice that I do have something in the back of my head and I have shared it with Congressman Peterson and that would be sort of a combination of the Australian Barley Board and the cooperative sugar marketing program.

It's a highbred that would take it completely out of the Ag Committee, should lower our cost to the taxpayer, and do away with this price depressing effects of EEP on the world market.

I was lucky enough to be able to represent the barley growers in visiting with Australians where I had a chance to visit with the board and with the producers and have taken several short courses at—in Canada with the Canadian Wheat Board so I think there's a better system in order to survive in this world today and I would like to be part of that and I think we have a chance right now to do something with that.

I'd like to expound just a little on our 5-percent assessment. The 1990 farm bill instructed that the Agriculture Department place a 5-percent assessment or tax on malting barley produced on farms that are participating in the production assessment program and to Minnesota, North Dakota, South Dakota that tax amounts to 10 cents per bushel or $5 an acre.

This tax is deducted automatically from the barley producers final deficiency payment. This tax is proven not only to be a pain in the side of the barley producers, but an administrative nightmare by the ASCS.

And when that's spread between malting barley prices and feed barley prices is less than 10 cents the farms are forced to sell their malting barley into the feed channels.

This 5-percent tax has shifted sales of malting barley into the feed channels and lowered the price of feed barley and you know the net effect has increased the Government deficiency payments which negate the income the Government receives for the imposed tax.

And, Mr. Chairman, I have a critique on that and you have a copy of that.

What does the 5 percent malting barley assessment have to do with Canadian barley imports in the United States? Canadian bar-

ley is not subject to that tax. Not only do United States barley farmers have to compete against subsidized Canadian freight rates, but we also get penalized 10 cents per bushel when we sell on our own market.

If we continue down this road of madness we will in effect turn our malting barley over to the Canadian Government.

In summary, we offer the following points: The assessment program is not cost effective. The assessment program is difficult to administer, and the assessment program has upset normal market and trade practices and that same program gives the Canadian Government an unfair trade advantage over United States barley farmers.

This will make it impossible for us to support the North American Free-Trade Agreement because the Canadian barley will be sent through our United States malting houses on into Mexico filling our negotiated quota.

We recommend that the committee mandate that the Secretary of Agriculture immediately use his discretionary authority to set that assessment at zero.

In closing then, I would say that without some kind of bold action very soon we, as malting barley producers, will be out of the business and, gentlemen, the situation is very critical. Thank you.

[The prepared statement of Mr. Lacey appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Lacey. I share with you concerns that barley has a number of problems even apart from the Canadian situation.

The supposed fix in the 1990 farm bill to correct the malting and feed barley situation led to still more unintended consequences and needs immediate attention.

I appreciate some innovative ideas that you have presented to us here relative to the overall export/import situation, so I appreciate your comments.

Mr. Peterson.

Mr. PETERSON. This barley decision that was made in Canada, evidently a part of this decision is American barley can go the other way now. Somebody told me. Is that true?

Mr. LACEY. Yes, that's true.

Mr. PETERSON. Is there any market up there?

Mr. LACEY. No.

Mr. PETERSON. So that doesn't do us a whole lot of good?

Mr. LACEY. None.

Mr. PETERSON. And the Canadian barley that's coming in that's being purchased in our elevators, so forth, is not subject to this 5-percent assessment because it's being sold as feed barley?

Mr. LACEY. No. It doesn't get the assessment.

Mr. PETERSON. Even if it goes into malting?

Mr. LACEY. The assessment is deducted from the deficiency payment.

Mr. PETERSON. Right.

Mr. LACEY. To the farmer.

Mr. PETERSON. So there's no way they can get it to the Canadians?

Mr. LACEY. No.

Mr. PETERSON. So in effect it is a 10-cent differential in addition to everything else?

Mr. LACEY. For us here in the Midwest. To the west it's more than that. In Idaho/Montana it gets to be worse.

Mr. PETERSON. And then you just were unsuccessful in establishing at least the Canadian grain that comes in here at least pay the promotion assessment, is that—we heard yesterday that Montana and I guess North Dakota were successful, but we weren't in Minnesota and we had an offer yesterday that the Governor of Montana was maybe going to come over here and try to educate our Governor. Maybe a good idea. You haven't got educated yet?

Mr. LACEY. You want me to get in more trouble? I'm in enough trouble as it is right now, Mr. Peterson.

Mr. PETERSON. Well, anyway we appreciate what you've been doing.

Mr. LACEY. Thank you.

Mr. PETERSON. We appreciate you being with us today.

Mr. JOHNSON. Mr. Pomeroy.

Mr. POMEROY. When you talk about nonexistence of a Canadian market for our barley growers, is part of the problem an exchange rate?

We spent the morning talking about subsidies and exploitation of NAFTA. I think a substantial compounding factor is the fact that our currencies are out of balance nearly to the tune of 25 cents of $1.

So Canada shipping their wheat across is getting an extra kicker nearly to the extent of 25 percent right off the bat just talking about dollar exchange rates. Do you agree with that?

Mr. LACEY. I agree with that, but also the attitude of back when the free-trade agreement was set up the brewing industry thought, hey, we're going to get a chance to attack that Canadian market with some of our cheaper beer.

They took care of that. They decided that the aluminum cans were an environmental detriment to them and they banned aluminum cans. There went our market.

We need a harassment division in Washington to figure out a few of those things like Canada has.

Mr. POMEROY. Senator Byron Dorgan observed he doesn't think there is a trade negotiation that our silk-shirted negotiators couldn't lose in half an hour. I think that's an excellent example.

Mr. LACEY. No comment.

Mr. JOHNSON. I always thought Washington does pretty good at harassment. Anything further?

Mr. POMEROY. No other questions, Mr. Chairman.

Mr. JOHNSON. Thank you, Mr. Lacey. And last on our final panel a very patient Mr. Dan Lautenschlager.

## STATEMENT OF DANIEL J. LAUTENSCHLAGER, PRESIDENT, NORTH DAKOTA GRAIN GROWERS ASSOCIATION

Mr. LAUTENSCHLAGER. Chairman Johnson, Representatives Pomeroy and Peterson, on behalf of the North Dakota Grain Growers Association I want to thank you for coming out here to hold this field hearing.

I am Dan Lautenschlager, president of the North Dakota Grain Growers, which represents both wheat and barley concerns. Obviously, our growers are being most directly affected by Canadian imports.

When hearings like these are held in DC. I would guess you have more people in the hearing room from Canadian interest groups than those of us who experience firsthand the cause and effect of those hearings.

We feel fortunate to have the National Association of Wheat Growers, WETEC and the National Barley Growers working on our behalf in DC, but as I understand we're outnumbered there. That is why we appreciate the tri-State congressional delegations represented here today.

We want to provide you with the facts and anecdotal information you need to fix what is broke in this free-trade agreement, so that as you consider the fast track in NAFTA we don't add insult to injury.

Since the statistical information is readily available from our experts in all three States, I am going to talk about what I think from my firsthand experience as a farmer who lives just 80 miles from the Canadian border.

To your seven questions, I guess I'd have to say we've talked these questions through at any number of meetings, seminars, and panels.

What appears to be the result of these discussions is more wheat, barley, and barley fed livestock coming into our domestic markets.

However, we have two new developments for this discussion: The recent announcements that Canadian farmers can sell barley directly into the United States without going through the Canadian Wheat Board and that the Crow rate may become a direct payment to farmers rather than to railroads, making the United States market even more lucrative to Canadian growers.

My questions to you are do these changes impact CUSTA sufficiently to allow the United States to pursue protection under section 22?

And do these most recent actions suffice to show that these actions are impacting domestic policy in the United States?

Increased deficiency payments due to reduced prices and increased demand on EEP outlays should prove that Canadian actions are driving changes in domestic policy, but you and I know that knowing something is wrong in the United States-Canadian Free Trade Agreement does not resolve the fair trade issues.

When we sit down with our Canadian colleagues, they admit to the advantage they have selling for a better price than they can get via their traditional channels.

How can we fault them for finding a way to take advantage of our trade agreement? We have always been ingenious at finding ways to maximize our benefits in our own farm programs.

Farmers wits have been sharpened by having to survive despite regulations and redtape. What frustrates us is that the Canadians plugged all the avenues for U.S. farmers benefiting from their system and providing a one-way greased chute for their production into the United States.

Perhaps the end-use certificate can help us identify numbers and make better cases when we pursue a complaint.

However, Charlie Mayer, the Canadian Ag Minister, this week said he would concede the need for end-use certificates for our grain into Canada, which may make the question moot, but until that happens, I think we need to push for the certificates.

As long as the grain industry, including our co-ops, finds advantages in handling the grain coming in, we won't see an end to the tripling of wheat imports that has occurred, and similarly the feed barley coming across.

United States and Canadian farmers have much in common and individually might even concede that they should share costs for the infrastructure which this grain traffic is impacting and even to contribute to marketing and promotion funds.

But as long as our marketing and monetary systems are so different, I cannot see how these things can change that much in our favor.

They sell all of their production every year and we have a State Department that holds us back, precluding timely use of the Export Enhancement Program.

Apparently, Mr. Christopher left North Dakota at too early an age to have lasting understanding of agricultural needs.

What is the answer? For the short term, apply the pressure. We can press for end-use certificates, pull out the stops on EEP, file for section 22 sanctions and buy some Canadian-type brains to make sure that we don't get left out of the Mexican markets by NAFTA.

For the long term we have to aggressively add to our cooperative ventures like Dakota Growers Pasta Company, or even possible joint ventures with farmers from Canada. If we have to take their grain, why not their money?

And perhaps convene a task force or blue ribbon commission to find ways to harmonize our systems so that we can work together toward the mutually important end of reasonable trade discipline on the EEC to resolve these grain wars.

Gentlemen, thank you for coming.

[The prepared statement of Mr. Lautenschlager appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Lautenschlager.

Mr. Pomeroy.

Mr. POMEROY. No questions.

Mr. JOHNSON. We appreciate the insights from the North Dakota Grain Growers Association and, again, I think it's very helpful for the subcommittee.

In order to expedite, so that we can conclude, I think we'll go ahead with the remaining witnesses and we're going to have to limit each final person giving oral testimony to 2 minutes. I know that that's outrageous to deal with issues as complex as this, but that's as much time as we have in order to extend the courtesy to everybody to give them an opportunity.

If you want to supplement that statement with a written statement, we will certainly—even if you don't have it ready right now, accept that into the record without objection from the subcommit-

tee and have that available for the other members and the staff in Washington.

And I would urge members of the subcommittee in order to have all of these people here testify we may have to refrain from questioning of these six individuals unless there's something that is just killing you to ask them.

Mr. Ted Allen is the first individual on our list, who's a member of the United Grain Growers, Ltd. at Canada and, Mr. Allen, we really do welcome you here.

## STATEMENT OF TED M. ALLEN, PRESIDENT AND CHAIRMAN OF THE BOARD, UNITED GRAIN GROWERS, LTD., WINNIPEG, CANADA

Mr. ALLEN. Thank you, Mr. Chairman. Thank you for taking the time to hear me. Very briefly, all I wanted do is to lay out some of the facts that may have been missed during these hearings.

First of all, I think it's important to know that North Dakota, my information is about two-thirds of your exports go to Canada and free trade or fair trade is just that. It means that goods have to flow both ways and as you free trade up there are winners and losers on both sides of the board.

The facts are that since the free-trade agreement has been implemented there's been a 50-percent increase in the flow of agricultural products, but the balance has been pretty well equal.

I think in 1992 there were something like 10½ trillion dollars' worth of agricultural trade between Canada and the United States and in excess of $5 billion of trade going in either direction.

In grains and oil seeds the situation is similar. There's pretty close to a balance in trade in the flow of goods going in either direction.

I just want to highlight for those of you who are concerned about the flow of Canadian products coming down into the United States, this year there will be about 1.2 million metric tons or about 50 million bushels of United States corn going into the Ontario market displacing what would have been a market for Canadian barley.

That is a 500-percent increase over the year before so if you think there's only one ox getting gored think again.

I would also like to add that in listening to Professor Wilson's comments I thought that he was very perceptive in most of his remarks and I concurred with most of his remarks.

I'd just like to conclude though by saying that I think we're all really missing the forest for the trees.

The European Economic Community brought on this trade war in agricultural products and at the risk of being severely abused by my—some of my colleagues in Canada at times I remind them of that when they try and beat up on the United States unduly.

I think EEP and other trade remedies were used by the United States in response to a very intransitive European Economic Community. I supported that thrust. I knew there was going to be blood on the floor during the short term, but I thought in the long term that it would achieve some benefits.

I really think what we need is a GATT, a resolution of the GATT, in which all of the developed countries of the world will agree to ratchet down their current subsidies that they give to agriculture.

I think this last year the OECD recognized in excess of $300 billion of subsidies that developed countries are paying their agricultural sector and it's the kind of a run faster to compete in the same place situation.

The European Economic Community particularly needs to reduce their level of subsidization as do other European countries and the Japanese and the Koreans and others need to open their markets up more.

That is the real answer I think to the problem that producers on both sides of the borders are currently running into in terms of the way they are getting dealt with in the—as far as their incomes go and difficulties in the marketplace. Thank you, Mr. Chairman.

Mr. JOHNSON. Thank you, Mr. Allen, and I really do appreciate your insights. In this particular hearing we probably needed a little more of that perspective, but I do agree with the general notion that in world trade if you give you got to get and I appreciate your being with us.

Mr. POMEROY. Mr. Chairman, under the "unless there's something you're just dying to say caveat," I have something I'm dying to say at this point. First, Mr. Allen, we appreciate our long friendly relationship with our northern neighbor and, in fact, recognizing we're the host State for the Peace Gardens. We're celebrating our long continuous friendly border so we're not about to—I hope I don't sound too provocative in our concerns.

You mentioned quite correctly and I am aware that the Canadians have serious problems with the Canadian Free-Trade Agreement in many areas. But when it comes to agricultural products we're talking about this morning, and in light of this incredible surge of grain imports into this country, in this area while there are more oxes than one that are getting gored when it comes to grains North Dakota is getting gored. I just don't think there's any getting around that.

Mr. ALLEN. And if you look at the flow of corn into Canada and to Ontario that's goring the western Canadian barley producer who would normally have that market if there were more restricted rules on the flow of those kind of commodities, but in the end I think the consumer wins on both sides if the more logical north/south flows take place.

Mr. POMEROY. We can talk about that.

Mr. JOHNSON. I would caution members of the subcommittee here that we may have—we don't want to refight all the issues that were brought up during the course of the hearing.

Mr. PETERSON. Could I ask——

Mr. JOHNSON. But I—yes.

Mr. ALLEN. I'm willing to respond to questions——

Mr. PETERSON. What do you think about the premise that agriculture should not be part of free trade, that it's actually a national security asset of each country and that it is of a state to be trading agriculture in the free market?

Mr. ALLEN. That's how we got into the mess we're in now. The Europeans originally wanted food security. They created——

Mr. PETERSON. Originally. They still want it.

Mr. ALLEN. Well, but they got—they overshot the mark so badly that then they were going to feed the hungry of the world. That was the rationale after they doubled their production beyond what they needed.

Then they got into a situation where even some of the developed—or the hungry countries of the world didn't seem to need it quite as much and I wondered then if it was an environmental thing because they were taking products out in the ocean and dumping them because they had been in storage for so long so then you wonder was it an environmental thing that they wanted to feed the fish. It got insane.

And really if we're—if we are a global village, if we are going to be much more interdependent, I think that food and agricultural products have to be part of that interdependency.

Mr. PETERSON. How about lawyers and doctors, why aren't they competitive in the world market?

Mr. ALLEN. I wish there was free-trade lawyers and doctors because I know which way the flow would be going.

Mr. POMEROY. I think taking them into the ocean and dumping them is a good solution.

Mr. ALLEN. Thank you very much.

Mr. JOHNSON. Mr. Erwin Warner, Halstad, Minnesota. Mr. Warner, welcome. Thank you for your patience.

**STATEMENT OF ERWIN N. WARNER, FARMER HALSTAD, MN**

Mr. WARNER. It's been a long time getting at you guys. To get things going, oil the wheels is lobbying. Washington, DC is 450 to 500 lobbies. They equal the Senators and the Congressmen.

Our families, farm families reside in western Norman County, Minnesota and eastern Norman County—eastern Traill County, North Dakota.

And I think one of the best pictures on here is anything we have a surplus of should not be imported.

Imagine importing corn and wheat. Corn, wheat, and barley we're probably amongst the six biggest growers in the world. Why should they move that stuff into our country?

And then they busted up "Ma Bell" because she was a monopoly. Why don't they bust up the big grain companies, the big brewing companies, the big railroads, the big banks? That would be business. That's what we got these people in Washington for is to run the business instead of lobbying too much.

I'll read a little piece I got here. Barley tax 1 cent a bushel is wasted, is a wasting of time and money. Grain prices are set in Washington, DC. The barley tax have been used for lobbying as a given to the Presidential campaign of $10,000 from the barley and the wheat. We should have probably got $2.80 or $3 for barley. We got 4.50 to $5 for wheat. Plus, we'd have saved agriculture for free trade.

Taking the whole agriculture for business in the Nation together we—the farmers stand as the biggest business in the Nation if they would hold hands. Together we stand, alone we fall. It's time the farmer stood up on their hind legs and got together.

Why do they call farmers dumb? Because the price of anything they buy, the market is set. Anything they sell at the market is set. Thank you.

[The prepared statement of Mr. Warner appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Warner. Appreciate your insights. And Mr. Hank Thilmony of St. Louis, Missouri, Italgrani USA, Inc.

## STATEMENT OF HENRY J. THILMONY, GRAIN COORDINATOR, ITALGRANI USA, INC.

Mr. THILMONY. Thank you for allowing me to speak briefly. We're a Durum milling company. We have a large milling in St. Louis and Boston. We also have a stake out in the Durum growing area of North Dakota.

We have two grain elevators that we have been operating there, and we purchased a third grain elevator this past winter. We're making $1 million in improvements there so we feel, or we found, the best way to encourage domestic production of Durum is to create a market. While acreage is declining in a lot of areas we feel that the area around our facilities, the Durum acreage is maintaining its—that the Durum acreage is maintaining and in the Powers Lake area where we just purchased a facility this past winter, we're finding that the acreage actually increased there a little bit because the farmers anticipate a good market.

The grain processing and handling business is a very competitive business. I don't think anyone can look at it and say that they're reaping huge profits. It's highly competitive and if it was easy, if there's big bucks to be earned there, everyone would be doing it and we've seen a lot of consolidation in that business both on a country level and also on a large scale.

For example, Pillsbury a few years ago was a huge grain processor and handler and they pulled out of the business.

I guess the statement that I'd like to make is that being in the processing industry we don't feel that abuses are taking place as far as Canadian grains getting into export channels and we oppose the end-use certificates.

I think some type of voluntary measures from the grain company stating what they're purchasing out of Canada would be more appropriate and, of course, if they wanted to follow up with audits from time to time to make sure that this is in fact the case, that would be beneficial.

I don't think any grain processor or exporter would want to risk the chance of losing—EEP bonuses down the road would risk putting—knowingly put imported grain into a subsidized sale.

Mr. JOHNSON. Thank you, Mr. Thilmony. Let me just—you rely primarily on Durum growers in the region of your facility. You do buy some Canadian Durum though, is that——

Mr. THILMONY. Yes. I guess last year we used about 14 million bushels of Durum. About 15 percent of that was imported from Canada. We also rely on our two elevators, we'll have a third now, and we also buy from other elevators as well, so we're a major player.

Mr. JOHNSON. Thank you very much. Mr. Don Loeslie of Warren, Minnesota, past president of the National Association of Wheat Growers. Mr. Loeslie.

**STATEMENT OF DON LOESLIE, FARMER AND PAST PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS, WARREN, MN**

Mr. LOESLIE. Thank you very much. Members of the subcommittee, I'd just like to state I think in 1984 it was that President Reagan made a statement that the projection of this Nation was economic stability and cutting inflation and that farmers would pay a very heavy price for that, but it was a price that had to be paid by this Nation.

Now, I would suggest to you that our new President is talking about economic growth and the same policies that maybe have been in place and it's time to really take another look at them because as we can tell here we are losing an industry, the largest industry, the most efficient industry in the history ever of this world and the standpoint is that if you combine the payrolls of transportation, steel, and the auto industry, it is not equal to the agricultural industry that we're putting on the line here this day and age or this timeframe.

And I'd like to also point out that as our commodities fall, using oats as the first one, oats went to the Scandinavian countries because it was subsidies that they were coming into this country with.

At one point their season failed them and oat prices a few years back raised to $4 a bushel. Carol Brookins and I had a discussion, open discussion, as to why American producers wouldn't produce oats at $4.

Well, of course, we were out of the market. We just were not geared up to do it and in past tense at $4 you bet we would, but at the 70, 80 cents that those countries had used subsidies to drive down the price with we were out.

Now we see the situation happening exactly with Durum. We see it happening exactly with barley. Wheat is next and the major thing is that there's an incentive in here.

The incentive should be for agriculture to do what it's supposed to do and that is to make jobs, to pay off trade deficits, et cetera. In the inverse, we're doing it in a standpoint that we are subsidizing almost with our EEP program, it's in place, but it's a volunteered program.

In defense of the new administration they haven't been in place long enough, but yet sales are lagging. If you look in past times we have had times of drought. We haven't pursued why we've lost huge amounts of sales that particular year.

Case in point, the drought year of 1988, I believe, and in that particular year if you follow that scenario down we had market prices of about $3.80. Projection was that it would go higher.

The projection was also that with the drought that was coming in the Winter Wheat area, no rural wheat stocks to speak of, U.S. wheat stocks at an all time low, they should have went higher and yet they plummeted to $2.30, because we decided to sit on the fence with our EEP program instead of making it the law of the land,

making it that we are going to sell it at that particular time and until—the rest of the country got into that world market and purchased those markets with their subsidies and directing as has been said to you today here.

The point is that after that effect, not only did the price fall from $3.80 to $2.30, is $1.5 billion more of taxpayer cost just for the farmers safety net?

The farmers safety net was thought to be too high so it was more in flex acres the very next spring and, of course, that effectively raised the target price or lowered it from $4 to $3.60 if you take in the 15 percent.

So the point that I want to get to you and as Congressman Pomeroy mentioned, one of the very things that has not really been mentioned in any of these trade things and in fairness to all countries and all producers who all face low prices, is the standpoint of the currency exchanges.

If I could oversimplify for a minute, if I go to Canada and spend $100, it costs me $80. They come here, $100 costs $120. If I'm a buyer do I want $100 of $80 stuff or do I want $100 of the $120 stuff. And, of course, we know it's went as high as 40 percent in other times.

Commissioner Vogel painted the point about the secrecy thing. Let me tell you firsthand being involved during that time we were told that wheat would not be part of the free-trade agreement.

Peter Murphy kept his word. He did not mislead us. But he was excused from the negotiation when the Secretary of Treasury, Jim Baker, went behind closed doors. They brought their farmers' views. We brought the businesses who farm the farmers' views.

And in that context the incentive that I spoke to at the top of the conversation, from a business standpoint you want to buy your commodity as cheaply as you can and, therefore, buying it from as many sources as you can makes good business.

Also, if you can play in the currency exchanges in there it's doubly more so. Throw in the transportation subsidy and all the other known factors and you can see what's happening to us.

Now, if you want to put that into the standpoint of the seller, if I'm in Canada it's an incentive to me to sell where my dollar is stronger because I can take that back and convert that 20 to 40 percent on the price that I got back home.

And, of course, you know I could just—dearly love to talk about this for awhile, but in the incentive—in the point of your discussion here I urge you to look at changing this incentive.

Somehow we have to be able to be in a position that our people can buy from our local farmers as cheap as they can buy from another competitor.

And I think also if I could just ask you to think about and I haven't had a chance to look at it, but Secretary Espy released a study here that showed that sugar—has claimed for some time that sugar was being—evading the tariff by coming through the process channel. I'm not exactly clear on the specifics of it.

I would like to know if it would be in order to have a study that would focus if that actually went into profits for certain companies or if that really went into consumer savings while this was happening.

Now, in the inverse of that if you take as we brought the wheat price down for all producers around the world, has that savings went into the consumers' hands or did it—is it actually going into business profits hands.

I think we need—not saying one is right, one is wrong, but we do need to identify it if we're going to learn from our past, if we're going to make the transition to the 90's where agriculture being the most efficient industry certainly should be the forefront leader and if we're going to destroy it with our own internal things by pricing our own people out of business, the only people who can be competitive is at the pure sense is the survival of fittest, if you get the rain or if you're in the senior years of your career. Thank you.

Mr. JOHNSON. Thank you, Mr. Loeslie. I appreciate the insights on that and I think you raise several good points that this subcommittee needs to pursue.

Mr. Warren Maus of Maynard, Minnesota, is a member of the Minnesota Wheat Board.

Mr. LOESLIE. Excuse me. Can I make one more further comment?

Mr. JOHNSON. One very briefly.

Mr. LOESLIE. In 1984 and 1985 we're familiar with this currency exchange situation. The United States had all time record depression-type years during those years. Our competition, all of the other exporters, including Canada, had all time record earning profits.

Mr. JOHNSON. Thank you. Mr. Maus, thank you for your patience.

**STATEMENT OF WARREN G. MAUS, FARMER AND MEMBER, MINNESOTA WHEAT BOARD**

Mr. MAUS. Thank you for allowing me to speak. I'm from Maynard, Minnesota, west central Minnesota. And I'm new on the Minnesota Wheat Board, and truly the only thing I'm interested in is price for our product.

We should repeal the free-trade agreement with Canada and we should unanimously oppose the NAFTA agreement as totally not acceptable for American ag and middle class America.

I have a little statement that I'll read. I just got the 29th of May. It's pro ag. And this was a recent export subsidy study by two rural trade specialists, Rod Tyers and Kym Anderson shows U.S. farmers would have gained $3 billion in sales volume in a typical year in 1990, if all global grain competitors had backed away from subsidized sales. However, EC farmers would have lost $53 billion in revenues.

It's obvious that the major opposition to GATT and other grain trade liberalization arises in EC where farmers are a powerful political bloc.

Well, now in this country we seem to have financial problems. We have a huge debt. We insist on selling Japanese soybeans for $5 a bushel.

I don't really know—to me I question our Canadian friends' observations. I don't know if I would like the observations of the Canadian farmer.

But why not $6 wheat? Why not a tariff of $6 wheat? Now, if we need this production, why should they not get $6 wheat?

An example, we talk about who gets the profit. I bought a package of Wheaties awhile ago and it was 12 ounces, for $2.53. You put a pound at $3.25 a pound for Wheaties. Now, wheat is 10 cents a pound. It would be $6 a bushel. Just think what that wouldn't do for your rural area.

And the barley, I was kind of astounded. I had to double check this. One bushel of barley makes 32 gallons of beer. And if you use 8 pints to 1 gallon that's 256 pints. I don't think anybody is getting $2.56 a bushel for barley today at 1 cent a pint.

Now, I understand the Canadians support their—maltsters have to pay $5.50 for their barley. And I—to me and we as farmers by this free trade are being exploited all over the world and these economists really don't care about us.

They like their annual raise every year and I did ask Mr. Wilson what he thought the price of wheat should be before the meeting. Well, he did tell me $5 a bushel. Well, I guess that would be a good raise from what it is.

But I think the whole farm bill should be repealed as we have had it. This deficiency payment on all of this stuff we should get the price out of the marketplace.

Now, the one program that works is the sugar and that's thought at no cost to the Government. Now, the sugar producers are making money. Now, they still have to raise the crop.

But I think we should look to something that benefits not only farmers, but the country as a whole. Just think what would happen to this country if there was economic stimulus that wouldn't cost the Government a penny if they were to support these prices as they have sugar. Thank you.

Mr. JOHNSON. Thank you. I appreciate your testimony and your insights. I understand we have an FAS representation here today. I'd like to have that.

We've fallen a little behind on schedule. We have some Minnesota and North Dakota media we need to talk to and I think we are supposed to be at the Northern Crop Institute in about 10 minutes.

So we are going to have to move along, but this testimony has been very helpful to us, all of it, written and oral. We'll be taking it back to Washington with us, share it with our fellow members of the committee and staff and I think it has been a very helpful proceeding to come out and talk to the people who are impacted in such a direct way in their own daily lives.

So thank you for everybody's contribution. With that, this subcommittee is adjourned.

[Whereupon, at 12:30 p.m., the subcommittee was adjourned, to reconvene, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

TESTIMONY OF N.D. AGRICULTURE COMMISSIONER SARAH VOGEL

BEFORE THE
HOUSE AGRICULTURE
SUBCOMMITTEE ON GENERAL FARM COMMODITIES

JUNE 12, 1993

Good morning, Congressman Pomeroy and Congressman Peterson. For the record, I am North Dakota Agriculture Commissioner Sarah Vogel. Thank you for providing this opportunity to testify on "free" trade and its impact on North Dakota grain producers.

This is not the first time I have spoken on these issues. Since I assumed office in 1989 I have presented written and oral testimony on at least eight different occasions. I have appeared before the US Trade Representative, the House Ways and Means Subcommittee on Trade, and twice before the House Agriculture Committee. I have requested that our Congressional Delegation ask for a General Accounting Investigation regarding the accuracy of the Producer Subsidy Equivalents. I have supplied evidence to the International Trade Commission during their injury determination investigation and to the US Trade Representative Office during a dispute settlement panel investigation of Canadian pricing practices on durum exports to the US. I twice opposed accelerated tariff reduction before the US Trade Representative. I testified for open negotiation and against fast track negotiation of the North American Free Trade Agreement. (See attachments 1-6).

Time and time again flaws of the US/Canadian Free Trade Agreement, as well as the consequences of these flaws, were brought

to light at these hearings and requests for comments by myself and many others.

Despite these alerts, corrections have not been made and problems that were predicted have indeed come to pass. Worse, these mistakes have been duplicated and incorporated in the proposed North American Free Trade Agreement.

What has been the result of this neglect? Durum imports from Canada have skyrocketed from virtually nothing in 1988 to one quarter of our domestic consumption. Imports increased 88% between 1989/1990 and 1991/1992. In the Pembina Customs District, imports from Canada went from 13 metric tons worth $3,109 in 1990 to 91,315 metric tons worth $12,561,317 in 1992. Our farmers have suffered because of this displacement in our own domestic market.

We try very hard to export durum. We devote a lot of resources to EEP. Since 1989/1990 we have increased EEP bonuses for durum by over 300%, but our export sales have remained flat. Worse yet, for every five bushels we export, we import two bushels from Canada.

Why have we seen this sharp increase in Canadian imports? And why is the federal government seemingly unable or unwilling to help us?

I would submit that the defects in the Canadian Free Trade Agreement are the result of the fast track process. Negotiations were held in secret. Hearings before the public to obtain feedback were not held. The agreement was negotiated by persons who were

either ignorant of, or didn't care about, the impact on Northern Tier states.

When the CFTA was finally released and people had a chance to review it, problems were swept under the rug by vague promises about how concerns would be addressed at some future time.

When we voiced alarm that Canadian farmers would have the benefit of about 66 cents/bushel on grain going to the East Coast ports, we were fobbed off with a section in the FTA Implementing Act that the President would negotiate to end use of the subsidy on grain exported in the U.S.:

> As an exercise of the foreign relations powers of the President under the Constitution, the President will enter into immediate consultations with the Government of Canada to obtain the exclusion from the transport rates established under Canada's Western Grain Transportation Act of agricultural goods that originate in Canada and are shipped via east coast ports for consumption in the United States. Free Trade Agreement Implementation Act, Section 304(a)(2).

To my knowledge, no such negotiations have taken place, or else the results of these negotiations were unpublicized and unsuccessful.

Similarly, concerns that the lack of price transparency by the Canadian Wheat Board would allow discriminatory pricing, dumping or sales at below acquisition price were fobbed off by statements in the Administrations' Statement of Administrative Action to Congress, as required by Section 102 of the Trade Act of 1974:

> In connection with paragraph three of Article 701, the application of the term "acquisition price" in that paragraph to sales by public entities such as the Canadian Wheat Board (CWB) is not specifically delineated, although such sales are covered by that paragraph. Of particular concern is determining the "acquisition price" of wheat in the context of the initial payment and final payment system used by the CWB.

> Any manipulation of the pricing system by the CWB would be subject to review by the United States to ensure that Canada's obligations under paragraph three to Article 701 were not being circumvented.
>
> ...
>
> In order to implement Article 701(3), the United States also intends to pursue consultations with Canada regarding the price setting policy of the CWB as it affects goods exported to the United States. These consultations will be directed toward establishing a method to determine the price at which the CWB is selling agricultural goods to the United States and the CWB's acquisition price for those goods. The ideal method would be a public price setting mechanism transparent to the U.S. Government, producers and processors.
>
> The United States will review individual sales for export to the United States of agricultural commodities by the Canadian government and public entities, including necessary price, quantity, and quality information, to ensure compliance with Article 701(3). To assist in this review, the United States Customs Service will provide information in its possession as necessary. Statement of Administrative Action, pages 32-33.

Despite these committments, there still is no way to determine prices actually charged by the Canadian Wheat Board.

Another problem that surfaced was use of remedies. We were assured that even if problems surfaced, they could be effectively addressed by the remedies provided in the CFTA. This has not turned out to be true. The use of remedies depends on the initial drafting. Thus, we are left with the absurd result that only the initial payment of the Canadian Wheat Board counts in terms of computing the acquisition price, that transportation subsidies used to take wheat to export markets are "domestic subsidies", that we were barred from exporting wheat to Canada when our "producer subsidy equivalents" were higher than Canada's, but Canada may freely export to the U.S. even if its "producer subsidy equivalents" are now higher than ours.

There is an old saying, "People who fail to learn history are condemned to repeat it". With the negotiation of NAFTA, we have forgotten the lessons of the CFTA. Like CFTA, NAFTA was negotiated in secret, without the benefit of public hearings, by persons unfamiliar or uncaring about its effects on rural people and subject to Fast Track. The remedies sections of NAFTA contain the same flaws (such as total secrecy of the hearing process) as the CFTA. I tried, for example, to get a copy of the briefs submitted by USTR on the durum panel dispute but was told that they are confidential. The same will happen under NAFTA.

In summary, I would offer the following suggestions:

*Require end-user certificates on Canadian grain going to the U.S., just as Canada requires on our grain. It is ridiculous to spend scarce dollars to help to export grain that is not even U.S. origin.

*Keep Section 22 to protect our domestic markets.

*Keep our countervailing duty and anti-dumping laws; I believe that we will need them.

*Defeat NAFTA. It is a bad agreement. One of the many defects of NAFTA is that it fails to correct the defects of the CFTA as to durum and other farm commodities. But that is only one of many, many reasons for defeating NAFTA. (I have attached my position paper on NAFTA as Exhibit 7.)

NAFTA is a bad agreement because it does not benefit production agriculture except to very trivial degrees, if at all. Tiny benefits --for example, 0.5% to 4% benefits after 10 to 15

years are anticipated for most North Dakota crops. It would dreadfully injure our sugar industry. Many new tariffs will be added. Our existing market in Mexico for some crops (such as beans and barley) will be reduced sharply. Our truckers, chemical service industry and manufacturing workers would be subject to unfair competition. For example, under CFTA and NAFTA Canada keeps our truckers out, while we let their truckers in. We risk disease problems, such as bovine tuberculosis, if we let Mexico enter into NAFTA without appropriate animal health standards and practices. Our farmers will face an uneven playing field in pesticide use and enforcement.

The dispute resolution process is seriously flawed. Numerous good state laws and programs are at risk of preemption by NAFTA secret dispute panels. Our state's ability to foster economic development and quality of life is in jeapardy by bad language in NAFTA that gives panels of trade lawyers the authority to overrule state laws in areas that we have customarily acted.

In recent weeks and months there has been intense pressure on the administration and Congress to allow use of EEP in Mexico to counteract Canadian selling practices. I would submit that there is something drastically wrong with the structure of a supposed trade alliance and trading block that necessitates use of retaliatory export subsidies against fellow members of the trading block. Can you imagine the Common Market tolerating export subsidies within the market?

Many people would say, "If we don't sign on to this version of NAFTA, the boat will leave the dock." I say, "That boat is the Titanic! Let it go!"

It is because I care so deeply about expanded trade and North Dakota's future as a vibrant participant in global trade that I so strongly want to see this version of NAFTA defeated. We should treat this version as a first draft and renegotiate a new and better NAFTA agreement.

Thank you for the opportunity to testify. I'd be pleased to answer any questions.

(Attachments are held in the committee files.)

# Statement of William W. Wilson

## I. Introduction

My name is William W. Wilson and am a professor of agricultural economics at North Dakota State University. I received my Ph.D in Agricultural Economics in 1980 from the University of Manitoba. My responsibilities at NDSU are to conduct research and teach in the areas of commodity trading and marketing, with a particular emphasis on international competition in grains and products. I have consulted with many U.S. and international firms and associations, as well as the U.S. Office of Technology Assessment about the international grain trade and intercountry competition. I am a past member of Federal Grain Inspection Service Advisory Committee, and a current Board member of the Minneapolis Grain Exchange. In these capacities, I have become conversant with many of the issues related to U.S./Canadian competition and have made more than 18 speeches to commodity organizations, firms, associations, and farm groups on topics related to the subject matter of this hearing.

## II. Factors Contributing to the Recent Escalation of Durum Imports

Many factors have contributed to the rise in imports of durum and hard red spring (HRS) wheat and barley during the past five years. I will briefly describe four interdependent causes beginning with the least important.

1. Changes in Relative Levels of Production

In recent years, durum production in North Dakota has decreased sharply, and the geographical distribution in the state has shifted. This is attributed to the combined influence of relative yields and prices.

In North Dakota, HRS yields have grown relative to that of durum, mostly in some traditional growing regions, i.e., Northeastern North Dakota (Figure 1).[1] The implication is that higher relative prices are required to induce the same level of durum production as yield differentials change. Premiums for durum wheat have decreased substantially, beginning with the 1989 marketing season (Figure 2). Since 1989, durum prices have decreased consistently relative to HRS prices.

The combined effect has been a shift from durum to HRS production. In the Northeast Crop Reporting District (CRD), the percentage of total area planted to durum has decreased from about 30 or 35% in the early 1980s to less than 20% in 1992. Similar shifts have occurred in other producing regions (Figure 3). In the Northwest CRD, the principal growing region, durum

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[1]All figures are contained at the end of the text.

production has decreased less, from about 60% of the area planted to 50% (Figure 4).

These shifts have several implications. First, the only region in which the yield differentials exceed the price differentials sufficiently to sustain durum plantings is in the Northwest CRD of North Dakota. Thus, if relative prices continue at recent levels, production is expected to continue its decline and rarely exist outside of that CRD. Already durum production has fallen below domestic consumption after adjustments are made for expected quality deficiencies thereby necessitating imports.

Similar shifts have not been observed in Canada. Yields of Canadian western red spring (CWRS) in Canada's primary growing region have increased substantially compared to yields of HRS in North Dakota growing regions. As a result, Canadian durum area had increased until 1992.

2. Canadian Advantages in Deferred Transactions

The Canadian marketing system has an apparent advantage over the U.S. marketing system in consummating distant deferred transactions. This subtle point is often overlooked, but does illustrates an important differences in the two marketing systems.

Important features of the Canadian marketing system enhance its ability to sell in distant deferred delivery periods. These include the combined effects of the price pooling system and a single-seller agency, who is also the sole buyer of durum from Canadian farmers. This is important because the Canadian Wheat Board (CWB) is not subject to the same competitive bidding processes that U.S. firms must confront on both the buying and selling sides of transactions. Because of the way the U.S. marketing system operates, durum growers and merchandisers in the United States tend to be more focused on near-term transactions. Also, the Export Enhancement Program (EEP) generally has been more focused on nearby transactions.

With consolidation of the U.S. pasta industry, buyers have become more concerned with securing supplies and prices for a longer time. Because of these differences in the marketing systems, U.S. suppliers have become more disadvantaged than have Canadian suppliers.

3. European Community Policies Regarding Durum

The principal underlying cause of many of the North American durum sector's problems can be attributed to developments in the European Community (EC) and, in particular, France in particular. These developments cannot be divorced from the North American problem and must be carefully considered.

France has traditionally produced soft wheat and imported higher protein wheats and durum from the United States and Canada. Soft wheat yields in France are substantially greater than durum yields (Figure 5). Of particular importance is that the yield disadvantage for durum in France is greater than that in North Dakota.[2]

To induce durum production in these marginal regions, the EC introduced special subsidies for durum production. A "Durum area subsidy" for selected regions of the EC--including France, is used. This has traditionally been for "peasant" types of farms as an additional social payment that reflected the farm structure. However, more types of farms have been included and the value of the subsidy has increased (Figure 6). Values in 1992 were the equivalent of about $88/acre.

The impact of this subsidy regime has increased acres in production, including nontraditional areas in the Paris Basin. The area planted to durum expanded from about 2% to about 8% of the land, including highly productive farming structures (Figure 7). This expanded production has increased exports into traditional North American markets, particularly North Africa, and, no doubt, the CIS countries, and offers regularly are made in some South American countries. The level of stocks has increased and exceeds U.S. production.

Changes are occurring in EC policies. A 15% set-aside was implemented, and intervention prices will be decreased by 35% over three years. By 1994, the intervention price for soft wheat will fall to 90 ECU/mt and that for durum to about 121. These translate to U.S. dollar values of $3.01 and $4.05/bu for soft wheat and durum, respectively, after the full cut in intervention prices is translated. Under this scheme, durum will retain a 35% premium relative to soft wheat and undoubtedly will not curb the expansion of durum production in France.

The durum area subsidy is unresolved under CAP reform. There was pressure to expand area coverage, but opposing this is

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[2]The durum to soft wheat yield ratio in France is about .70. The durum to HRS yield ratio in North America is about .90.

the budgetary cost of disposing growing surpluses.[3] Although, resolution of this policy is not clear, it is crucial for developments in North American durum. If it is not reduced substantially, then we should expect continued expansion of durum in nontraditional regions in France (and elsewhere), growing surpluses going under intervention, continued subsidies to dispose of this in potentially non-traditional EC markets, and further depression of durum premiums in North America relative to competing crops. Of course, if it is changed or eliminated, then the opposite would occur. Durum, in particular, would return to its traditional price relationship with respect to HRS and CWRS, and plantings of this crop would reverse.

The importance of these developments is critical to understanding current problems in the North American durum sector. The logic of these effects is as follows: 1) expanded durum production in the EC, particularly France, results in increasingly large restitutions to dispose of their growing surpluses; 2) pressure develops in the United States via EEP to retain market shares; 3) U.S. domestic prices become distorted from the international market; and 4) pressure emerges for the U.S. to import durum from Canada.

4. Impacts of Logistical Cost Differences and EEP on Durum Imports

One reason for the recent expansion of durum imports into the United States is the distorted prices in the United States relative to the rest of the world and Canada. These are illustrated in Figures 8 and 9.

Figure 8 shows the spatial price relationships for North American durum in the Fall of 1992. Prices in the two countries differ substantially at various points in the marketing system. This is primarily because of the more efficient grain handling and transport system in the United States and the administration of transport subsidies in Canada. This figure illustrates that U.S. durum imports is due, in part, to fundamental logistical and price relationships--primarily the efficiency of the U.S. market system. The transport subsidy mechanism in Canada results in the greatest spread at Thunder Bay rather than at the farm level. The application of the WGTA subsidy in Canada fundamentally forces durum flows to the principal export points in Canada, Thunder Bay, and Vancouver. Removing that subsidy regime would necessarily increase price differentials across the Prairies and provide incentives for flows across the border.

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[3]Apparently these have been reduced in the most recent crop year resulting in a large reduction in production.

The impacts of the EEP are illustrated in Figure 9. EEP reduces prices in Canada relative to all points in the United States, including country points in North Dakota. As the proportion of EEP increases and/or as bonus values increase, the incentive to move durum into the United States increases.

The combined influences of logistical cost differentials, the WGTA subsidy mechanism, and the EEP widen price differentials between the two countries. As these differentials widen, pressure and incentives for sales from Canada into the United States increases. These pressures emerge from numerous areas including individual Canadian farmers, Canadian accredited exporters, and U. S. millers, and are all exerted on the Canadian Wheat Board.

However, the Canadian Wheat Board likely tries to restrict sales into the United States through the issuance of export licenses. The purpose of limiting sales into the United States would be to support North American prices and net revenue from sales to third countries which are not EEP recipients. Basically, the CWB develops its offer prices based on comparable U.S. export values. When more Canadian grain is sold into the United States markets, U.S. prices become depressed, and the CWB's returns from sales to offshore markets are reduced.

This latter point is allegedly the principal reason for the CWB's having restricted barley sales into the United States, despite apparently wide price differentials. This was a contributing factor to the political pressures leading to the recent announcement of liberalization of Canadian barley marketing for sales in North America.

This section illustrates a number of important points. First, increasing EEP bonuses and/or the proportion of sales made under EEP widens the price spread between the United States, world, and Canadian prices. This results in incentives to sell (buy) into the United States (from Canada for import into the United States). Second, higher loan values or any policy creating a wedge between U.S. domestic and world prices would have the same impact. Third, eliminating the CWB functions in these transactions would likely remove their ability to restrict exports to the United States using licenses. Consequently, these price differentials would be eliminated, and U.S. and North American market values would quickly fall to world levels. Fourth, eliminating the WGTA subsidy as currently administered would result in greater incentives to import durum at Prairie points via trucks rather than primarily through the Great Lakes.

Eliminating CWB functions and the WGTA subsidy will become vivid in the next 12 months as the Continental Barley market

takes shape. Beginning this August 1, the CWB no longer will have an export or purchasing monopoly for sales into the United States. An estimated 900,000 mt additional sales of Canadian barley could be made into the United States because of this change.[4] Second, the subsidy on rail shipments will begin shifting to direct payments to growers. Thus, two apparent irritants are in the process of being eliminated in the case of barley and one in the case of wheat.

**III. Resolution of the Problem Within the Canada/United States Free Trade Agreement (CUSFTA)**

Given the causes of the problem, how to solve the problem within the context of the CUSFTA is not clear.

End-use certificates Implementing an end-use requirement would increase paper work for merchandisers and importers. However, there is no reason these would reduce Canadian imports, which will continue to respond to economic pressures. If anything, they would have value only as a vehicle to induce eliminating end-use certificates for sales into Canada.

Duties and quotas Conceptually, imposing duties or quantitative restrictions on imported durum could reduce imports. The extent of their ability to curb imports would depend on the evolution of changes in EEP bonuses relative to transport cost differentials. However, my understanding is that these would violate the CUSFTA and its intent.

Targeting the CWB and Transportation Subsidies Given the causes of the problem, these would likely be counterproductive. To the extent that the CWB restricts sales into the United States via its export licensing authority and for strategic reasons, its elimination would remove that restraint and increase imports. Second, as the WGTA subsidy is shifted to direct payments to producers, a process already in place that will be accelerated and completed in the next 4 years, the export transhipment points of Thunder Bay and Vancouver will become less attractive; and greater incentives will exist for cross-border sales on the Prairies.

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[4]See specifically, C. Carter, An Economic Analysis of a Single north American Barley Market submitted to the Associate Deputy Minister, Grains and Oilseeds Branch, Agriculture Canada, March 1993, Ottawa.

## IV. Use of EEP Against Canada

Two important points should be considered in deciding whether to use EEP against Canada or customers for whom Canada has important and growing market shares.

First, given that one of the contributing factors to increased Canadian imports into the United States has been the EEP program described under II.4, additional EEP targeted at Canadian customers likely would exacerbate that problem. In particular, the differential between United States, domestic, world, and Canadian prices would widen; incentives to import Canadian durum would increase; and pressures on the CWB to expand sales into the United States would increase. This is a critical point which should be assessed on every EEP transaction.

Second, U.S. commodity groups, policymakers, and EEP program administrators must assess the longer-term strategic importance of their customers in making (or trying to influence) EEP decisions. There is an important tradeoff: an increase in EEP <u>may</u> increase sales in the targeted country, possibly only temporarily.[5] However, it would also induce imports of Canadian durum by U.S. customers and in the process longer term market channels and mechanisms would be created to facilitate sales into the United States. The quantitative dimensions of this tradeoff[6] are not clear but should be analyzed carefully as these decisions are made.

## V. Incompatibility of Grain Marketing Systems and Policies

After studying this problem carefully and trying to understand the many contributing factors, I have concluded that the principal cause of the problem is attributable to the inconsistency of U.S. and Canadian policy mechanisms and their incompatibility with the freer trade regime that CUSFTA imposes. Imports of Canadian durum are not the only problems. Others grains are affected similarly and many market functions in the United States (e.g., futures, exchanges, operation of export programs) are disturbed.

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[5]This is even questionable. Recent work of ours (W. Wilson and S. Yang, <u>Impacts of Wheat Export Strategies on market Shares</u>, Department of Agricultural Economics, North Dakota State University, forthcoming) suggest that though in early years of EEP it had the impact of reducing Canadian market shares in particular countries, this impact has been negligible and statistically not significant in more recent years.

[6]We are in the process of studying this in the case of barley.

Many of the proposed solutions should be viewed as shorter term. Longer term solutions to these problems must focus on efforts to try to harmonize and coordinate the two systems, or else these trade skirmishes will continue and expand. Certainly, the experience of formulating the European Community as a trading block resulted in immediate efforts to create coordinated agricultural policies in the participating countries. When formulating new farm policies and implementing existing policies, an ultimate objective of increased coordination must be pursued. Further research is required prior to making specific recommendations. However, it should be clear that this in no way suggests the U.S. should adopt a single seller agency system; rather, coordination of income and marketing policies should be a goal to eliminate these distortions. A few observations are made below of the incompatibilities of our systems.

The U.S. marketing system is based upon the use of futures (or other relatively transparent) markets for price discovery and risk management, competitive provision of marketing functions, and determination of costs. The combination of these determines the allocation of grains among competing spatial and temporal demands and among export and domestic demands and imports and provides incentives/disincentives for quality. This otherwise competitive marketing system is intervened, using numerous policy mechanisms designed to impact farmer incomes. These include deficiency payments, loan rates, EEP, and set-aside programs. Loan rates and EEP create artificial distortion in spatial price differences and set-aside programs (ARP, CRP) are counterproductive when competitors located in contiguous regions do not pursue similar policies.

The Canadian marketing system differs drastically. Marketing functions are highly organized, centralized, regulated, and controlled through numerous government agencies and corporations. Price discovery is nonexistent for Board grains and is not necessary due to the use of price pooling that entails initial payments. The Canadian government guarantees initial payments which are relatively rigid throughout a marketing year. Marketing quotas are used to induce or restrict the flow of grains into the grain marketing system. If restrictive and/or if initial payments do not respond to changes in U.S. domestic market prices, incentives exist for farmers to ship directly to the United States. The principal source of past income support for producers has been through a subsidy program paid directly to railroads to facilitate artificially low gathering rates. Set-aside programs or any effort to restrict supply has been nonexistent since the LIFT (Lower Inventory for Tomorrow) program in the early 1970s.

The CWB is a single-seller export agency, which has a monopoly on purchases from producers. As a single-seller (and buyer) agency, the CWB has a number of advantages relative to

what would exist in a competitive system. The CWB can and does target customers on a longer-term basis and conducts numerous market development programs which are closely coordinated with their sales strategies.

In addition, the CWB operates with less transparency than it would in a more competitive marketing system where it would have to simultaneously bid competitively for both the purchase and sale of commodities. This is commonly referred to as the price transparency problem, and is particularly true in the less liquid grain commodities. The U.S. market system is highly transparent in most commodities because of open public market mechanisms for futures and some cash commodities, competition among grain trading firms, information technology, price reporting services of the USDA, and public release of all information from EEP tenders and sales made under other public programs. The combination of these results in a relatively high degree of certainty about the value of underlying commodities and, therefore, offer prices on export tenders.

Price transparency and lack of transparency are viewed as attributes of different national marketing systems.[7] However, transparency is a matter of degree: a market system is "more transparent" to the extent that it reveals more information relevant to the formulation of competitive bids. Single-seller agencies (i.e., in Canada and Australia) reveal few details of their transactions. In the U.S. marketing system, many terms of trade are revealed, and sufficient information is available (e.g., futures prices, basis levels, and announced EEP subsidies) to permit refined estimates of transaction prices. This information asymmetry constitutes a disadvantage for firms operating in a more transparent competitive environment.

In bidding on export tenders, this means that competitors, including the CWB, have relatively greater information about offers from U.S. grain companies than vice versa. This is in contrast to operations of the CWB and other single-seller agencies. Due to operations of their marketing systems, particularly lack of bidding competition in purchasing and sales, information about pricing rarely emerges in any form that competitors could use to formulate bidding strategies. This results in an asymmetry in information which competitors use to formulate their bidding strategies. Consequently, competitors of the CWB, including individual U.S. export firms and administrators of EEP, have relatively greater uncertainty about

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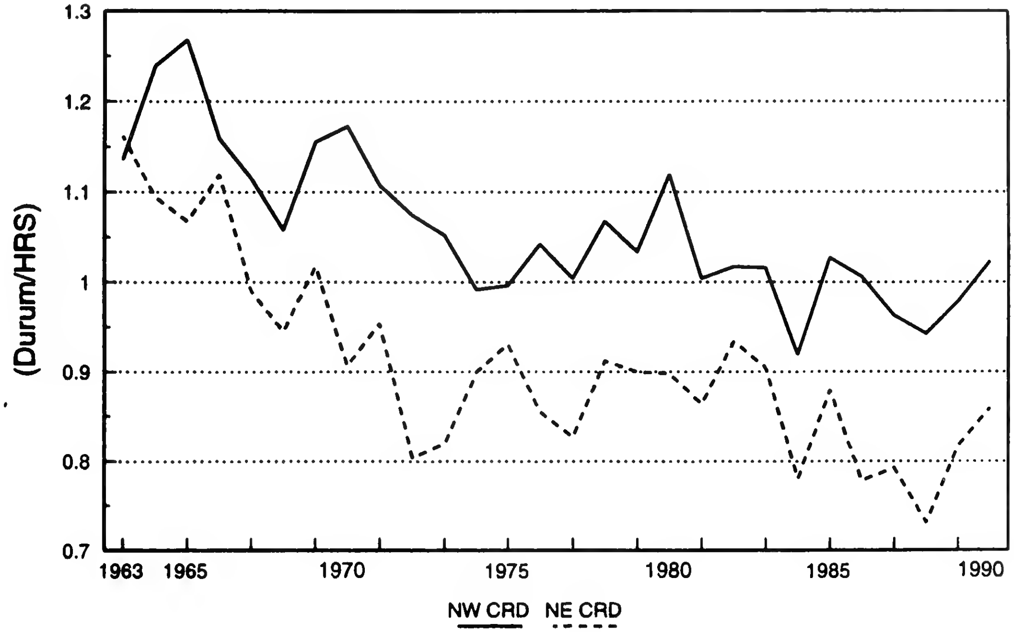
[7]A highly specific interpretation of this is contained in T. Preszler, W. Wilson, and D. Johnson, Competitive Bidding, Information and Exporter Competition, AE 92008, Department of Agricultural Economics, North Dakota State University, Fargo, August, 1992.

the value of CWB offers. This is referred to as the strategic role of information in competitive bidding and results in an important source of competitive advantage for the CWB relative to U.S. counterparts.

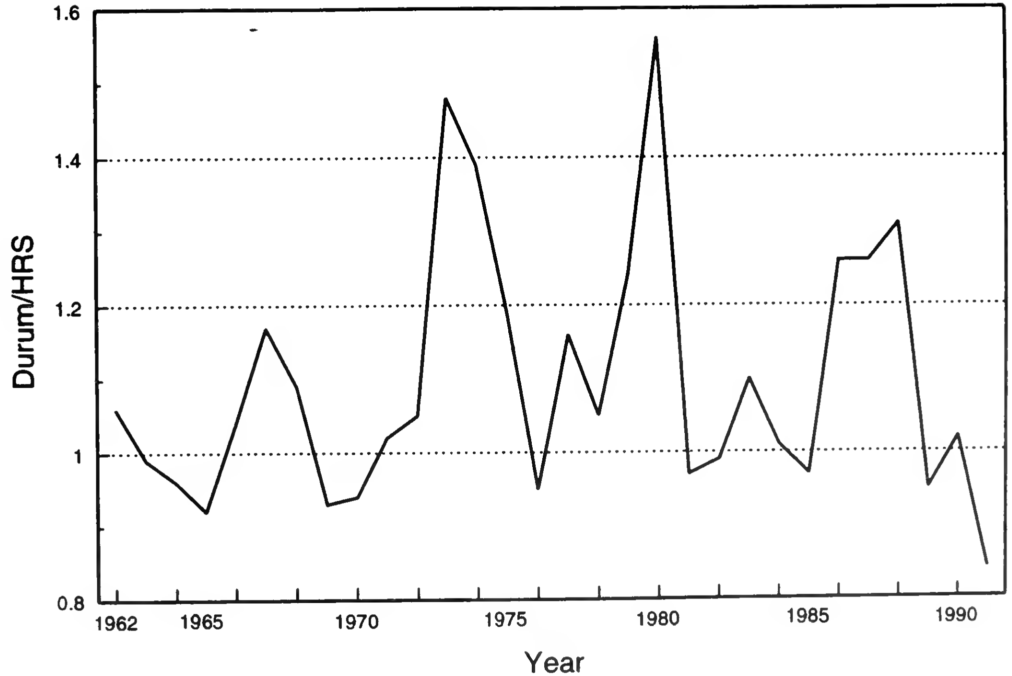
(Attachments follow:)




Source:North Dakota Agricultural Statisitics

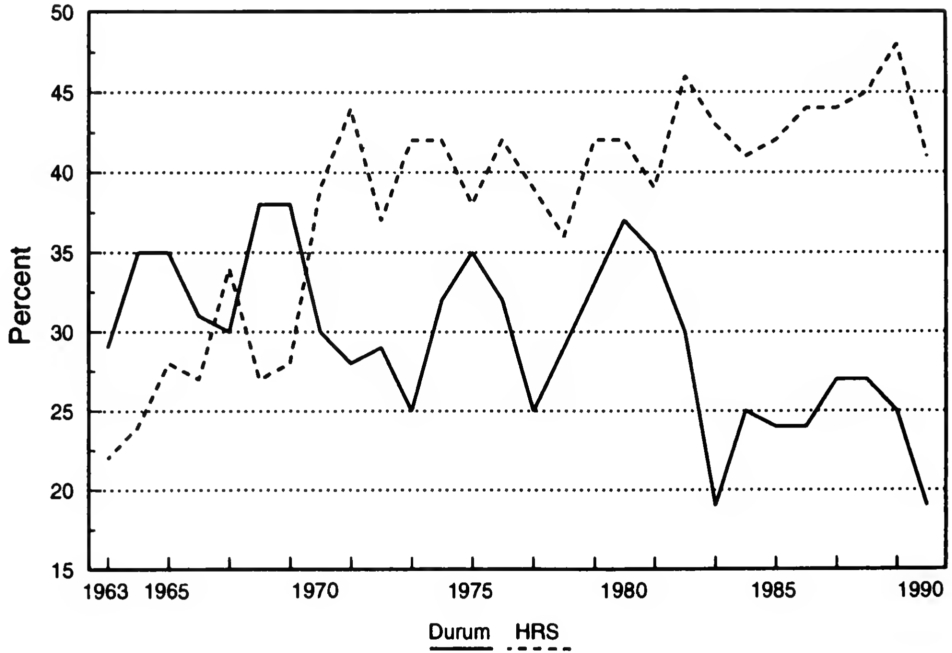
**Figure 1. RELATIVE YIELDS (DURUM VS HRS): SUMMER FALLOW**

RELYLDND DRW
WILSONP PFL



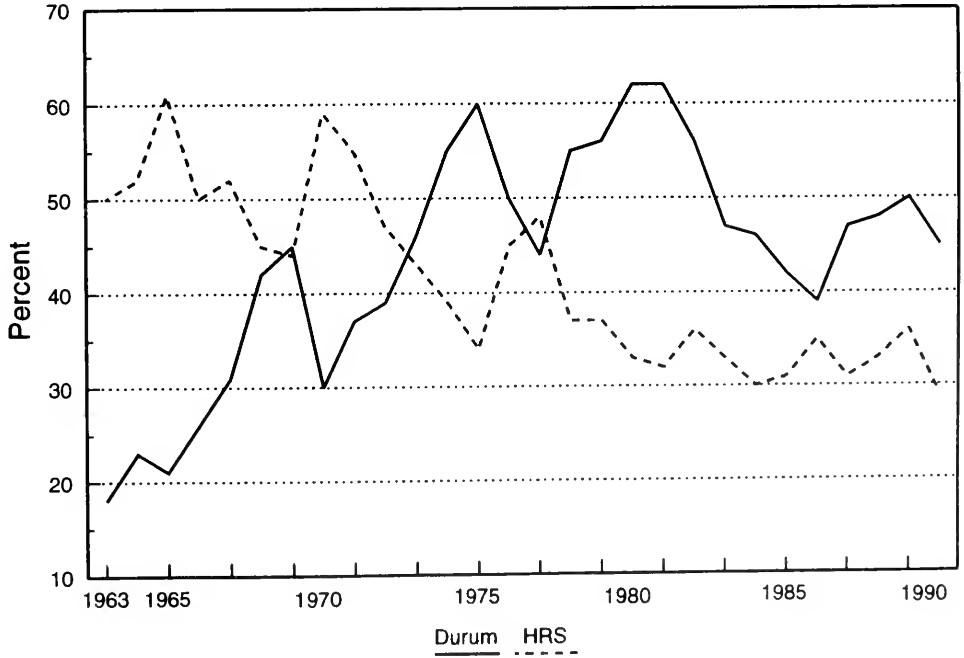

Source:North Dakota Agricultural Statistics

**Figure 2. RELATIVE WHEAT PRICES RECEIVED BY NORTH DAKOTA FARMERS**




Source:North Dakota Agricultural Statistics, various issues.

**Figure 3. PERCENT OF TOTAL PLANTED ACREAGE: NE CRD**




Source:North Dakota Agricultural Statistics, various issues.

**Figure 4. PERCENT OF TOTAL PLANTED ACREAGE: NW CRD**

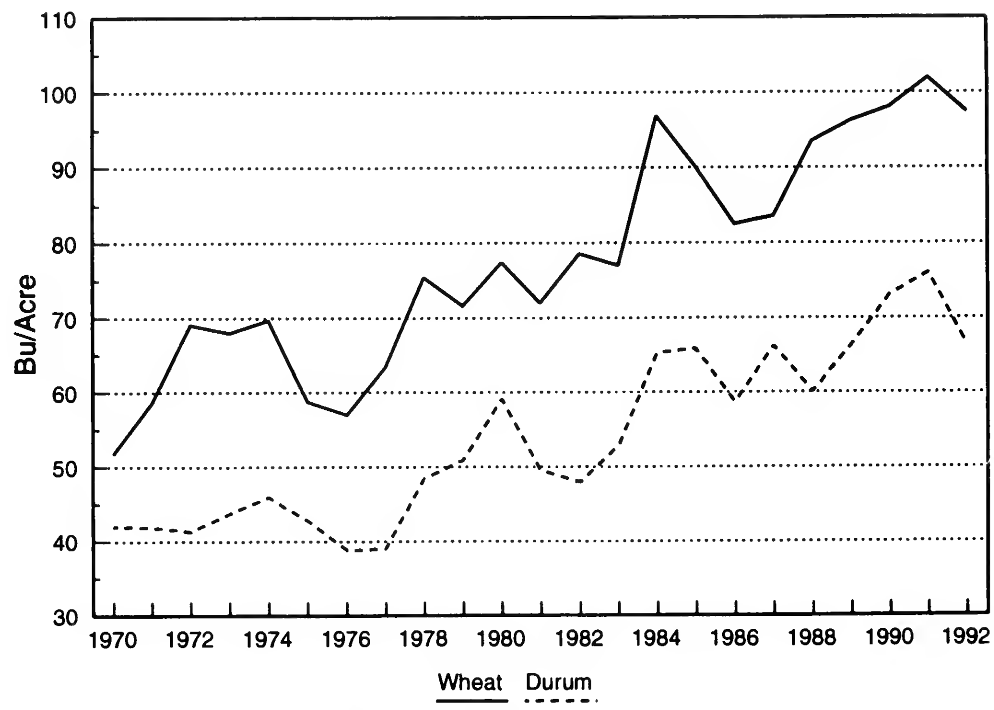



Figure 5. WHEAT AND DURUM YIELDS:FRANCE

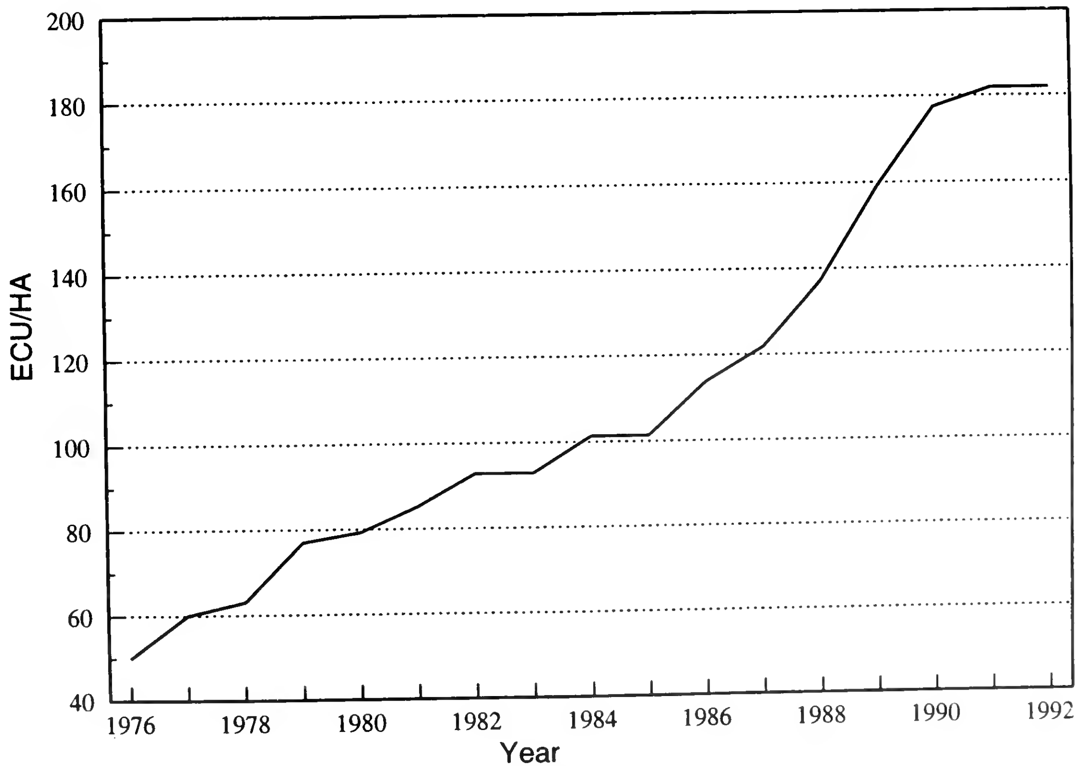



Figure 6. AREA SUBSIDY FOR DURUM WHEAT:FRANCE

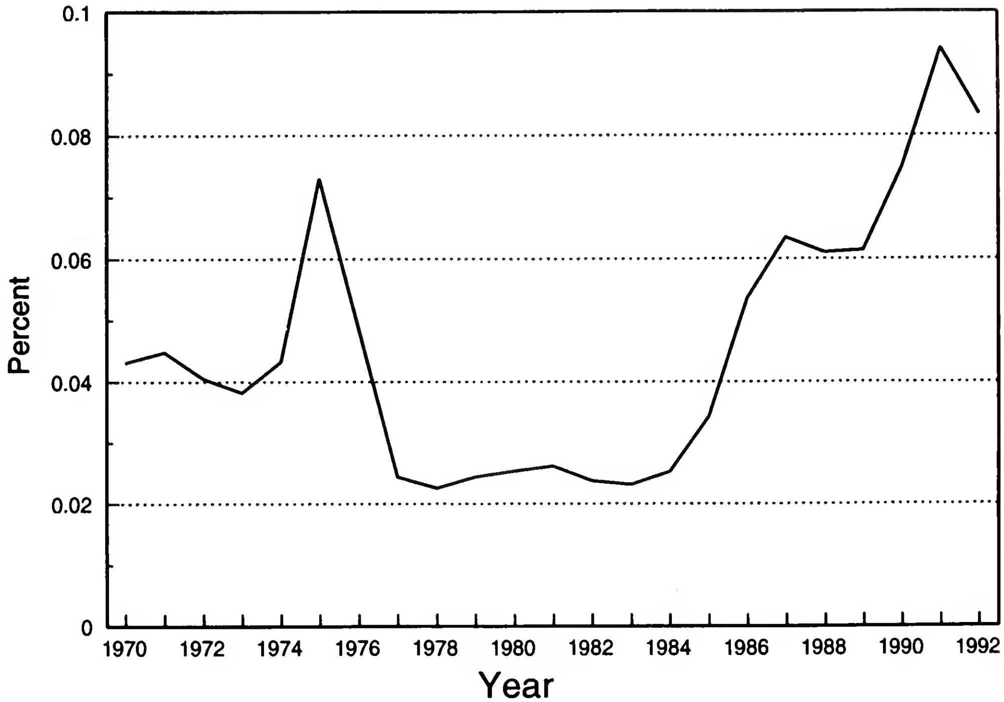



Figure 7. PERCENTAGE OF WHEAT AREA PLANTED TO DURUM: FRANCE

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WILSONP PFL

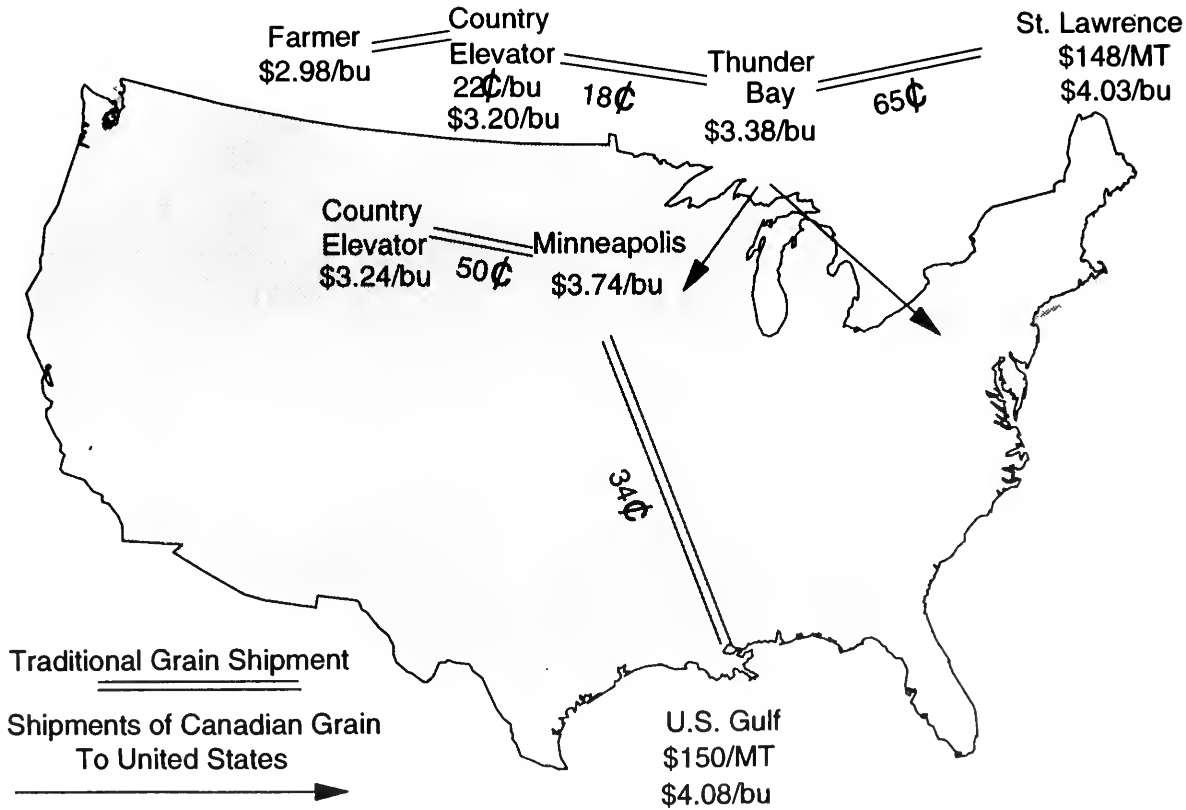



**Figure 8. NORTH AMERICAN PRICE RELATIONSHIPS (FALL 1992)**

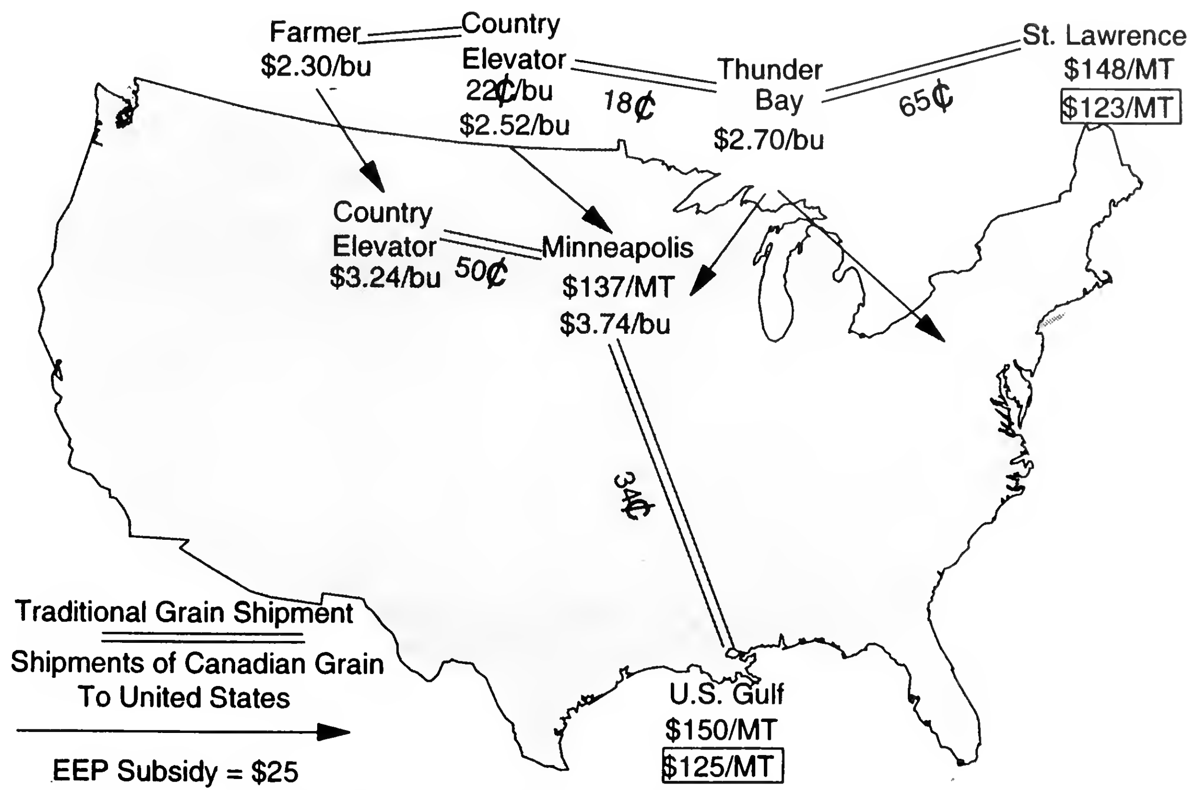



**Figure 9. NORTH AMERICAN PRICE RELATIONSHIPS (FALL 1992):IMPACTS OF EEP**

STATEMENT OF
ALAN BERGMAN, PRESIDENT
NORTH DAKOTA FARMERS UNION

Before the
US HOUSE OF REPRESENTATIVES
COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON GENERAL FARM COMMODITIES

JUNE 12, 1993 - MOORHEAD, MINNESOTA

Mr. Chairman. My name is Alan Bergman. I am a small grains, and livestock producer, operating a third generation family farm in northwestern La Moure County, North Dakota. I am serving in my seventh year as president of the North Dakota Farmers Union.

On behalf of the members of the Farmers Union and all agricultural producers, I want to express our appreciation to you and the subcommittee members for this hearing and the opportunity to focus on agricultural trade relationships.

Farm families throughout the Northern Plains are caught in the crosscurrents of a continuing international agricultural trade war that is devastating family farm producers worldwide.

For over a decade our nation's domestic and export policies in the agriculture have been geared to regain market share and volume, with little regard as to the impact of those policies upon farm income or the family farm structure of American agriculture.

These trade battles for market share have and placed our producers on a never-ending treadmill of trying to produce greater volumes at lower prices on the theoretical assumption that we would gain comparative advantage in the world marketplace.

Unfortunately, rather than meaningful efforts to resolve this trade war, it has been escalating at every turn. It can be compared to a war strategy in which the fiercest fighting occurs whenever a truce is being seriously negotiated in order to gain the high ground.

But, we have not been seeking the high ground. Our trade negotiations have sought to institutionalize the ruinous competition that would price all agricultural production at the dump price in the world market.

The result of this trade war has been the loss of over 250,000 American family farmers and an export market share that has become predominantly dependent on federal subsidies through the export enhancement program.

To be perfectly blunt, we have been out negotiated time after time and the interests of agricultural producers have been traded away for the benefit of other economic sectors. We also have to admit that our trade officials have in the past purposefully sought to rewrite our nation's farm laws through trade negotiations.

The bilateral Free Trade Agreement between the United States and Canada serves as an example of the mindset that this nation has followed in trade negotiations. While this agreement between the United States and Canada theoretically was to create free trade between our two nations, the reality is very different.

Essentially, the agreement created a one-way street for Canadian grain to move unrestrained into the United States. There was no consideration given to the currency differences between our two countries, nor how currency differences can quickly distort trading arrangements.

There was no consideration given to the fact that Canada has a marketplace of 26 million people, while the United States has some 260 million people. There was no consideration given to the reality that Canada must export 80 per cent of its wheat crop, and that we would be their closest export market.

The free trade agreement with Canada did not create a level playing field between grain producers of our two nations. The agreement negotiated what subsidies would be counted as subsidies and what were not. For example: the United States agreed not to include eastbound shipments under the Western Grain Transportation Act in Canada as a subsidy.

This provides about a 50 cent per bushel subsidy on grain moved east from the prairie provinces onto the Great Lakes, where it can be moved to either international markets or to U.S. markets, such as the large millers from Ohio to New York.

The agreement figures the acquisition cost of grain as the initial pool price paid to Canadian producers by the Canadian wheat board. It totally overlooks the final payment paid to producers.

We are not saying that Canada should abolish its Western Grain Transportation Act, nor that Canadian producers shouldn't get their final pool payment.

We are saying that if we are going to have a level playing field, that Canada should not be able to export its grain into the United States at less than their full actual production and transportation costs.

From the very beginning we pointed to these and other concerns as being unfair to United States producers. To have a level playing field we should offset those subsidies before they move across the border, and displace our production in our own domestic marketplace.

Since the Free Trade Agreement with Canada went into effect, the United States has become Canada's fourth largest grain customer. This simply doesn't make sense when you consider that the United States is the single largest exporter of grain into the world market.

We have become Canada's second highest priced wheat market (behind Japan) because Canada has found it more profitable to compete within our domestic market than to compete with us in the international market.

According to Canadian Grain Commission statistics,total grain imports from Canada by the United States were up 38% this past year. Spring wheat (not including

durum) was the single largest grain imported from Canada. In fact, spring wheat is moving into the United States at about twice the rate as durum wheat.

Wheat imports from Canada during the first half of the 92-93 marketing year already exceeded the total wheat imported during the entire previous marketing year. (See NDFU chart # 1)

While spring wheat has been the largest grain import, durum has received the most attention because it is a specialty commodity with a distinct market. It has also had the most dramatic impact upon U.S. markets and prices paid to our producers.

Durum imports have grown from zero in the mid-1980's to the point where they now are a very significant factor in our domestic market.( See NDFU Chart # 2) Imports of Canadian durum now are the equivalent of between one fifth and one fourth of U.S. domestic durum usage.

But it is not just the domestic market, where these imports are creating marketing problems. We are also concerned with the impacts upon our export markets.

Traditionally, the United States has been exporting 45 to 50 per cent of its durum production. (See NDFU Chart # 3). Since durum wheat became eligible for the export enhancement program in the mid-1980's, between 70 and 80 percent of the durum that is exported annually has been exported through the EEP program.

We are very concerned that imported Canadian durum will find its way into our export channels and be directly subsidized by the EEP program. For this reason, we are supporting legislation to require end-use certificates for grain imports to ensure that it doesn't move through our export programs. We urge this committee to give end-use certificate legislation a speedy hearing and a favorable recommendation.

By requiring end-use certificates, it would also be clear which processors and commodity traders are using imported grains and whether or not they should be eligible for using EEP subsidies. End-use certificates would provide a full tracking of imports. As part of the end-use certificate system, we should also require price disclosure of the imported commodity, so that there would be price transparency on these imports.

While requiring end-use certificates would be a positive step, we must recognize that Canada is getting a back-door subsidy through the EEP program whether or not any Canadian durum actually is transshipped through our borders under EEP.

The EEP program creates a price differential between our domestic and export marketplace, and Canadian durum is advantaging itself in our domestic market at the higher price. Thus the EEP program makes it profitable for Canada to ship grain to us.

Since imported Canadian grain displaces our own domestic production, we have to export more of our own grain and use more EEP, and the Canadians get a free ride at our expense.

If we look at the trend line between our durum exports and the imports from Canada, our durum export volume is on a downward line, while Canadian imports have been on a steadily upward line. (See NDFU Chart # 3)

The result of Canadian wheat moving into our domestic U.S. marketplace is that prices to our producers have been on the decline. In recent years the premium price that durum producers used to receive for their commodity has become a discount in comparison to general wheat prices.

Our federal farm program has a difficult enough time of maintaining prices and managing supplies for our own producers.

These imports are undercutting both our domestic and export commodity programs. We do have authority under Section 22 of our permanent farm law to take action to counter these impacts through quotas and/or tariffs.

We should also consider using the authority under Section 301 of our nation's trade law which allows our government to take action against countries who use unfair trade practices in their trade relationships with the United States.

The same can be said for barley. The announcement last week by the Canadian government that it will allow barley producers in the Prairie Provinces to sell their barley directly into the United States will put our barley producers in the same fix as our wheat producers.

Prior to this action by the Canadian government, we already had been concerned that Canadian barley imports had almost doubled in the last three years. Imports of Canadian barley into the United States grew from 213,000 metric tons in 1988-89 to 406,000 metric tons in 1991-92.

We are concerned that our local marketing channels, especially those near the boarder, could be flooded by sales of Canadian barley, compounding our problems at local grain handling, transportation and storage.

The inevitable result of this action will be the lowering of prices to producers, and reducing the premium between feed and malting barley. We have already outlined these concerns in letters to Secretary of Agriculture Mike Espy and U.S. Trade Representative Mickey Kantor. (See attached letters.)

North Dakota is the nation's single largest producer of barley and produces thirty percent of the nation's barley. Barley normally contributes almost a quarter of a billion dollars annually to the state's agricultural economy. Even the loss of a dime per bushel would cost North Dakota producers $14 million.

We are disturbed that the economic study used by the Canadian government to justify this action has some serious flaws. The most serious flaw is the assumption that the United States, which is the largest producer and exporter of feed grains in the world, has significant feed deficit areas that could be competitively served by Canadian barley imports.

We are not a feed deficit nation. Other than a few limited niche markets along the border, the only way Canadian barley could be competitive in U.S. markets is if that barley were heavily discounted in price or otherwise subsidized by Canada.

It should be noted that both barley and barley malt are eligible for the export enhancement program. Again, the United States will be in a position of allowing imports through the back door across the Canadian border, while it is trying to increase its

exports through the front door through EEP and other export efforts. This doesn't make good economic sense nor does it make any political sense.

These issues are not limited to grains. In terms of livestock, Canadian producers shipped 25 times more live cattle into the United States in 1990 than we shipped north. In 1991, Canadian pork producers shipped 13 times more pork into the United States than we shipped to them.

We also recently learned that Australian beef was circumventing our nation's import laws by being transshipped through Canada. According to testimony by a border meat inspector, it is very likely that this Australian beef was the source of the illness and deaths on the West Coast in the Jack-In-The Box scandal.

If this is the new economic order under the existing free trade agreement with Canada, we have to seriously question what life would be like if the current North American Free Trade Agreement (NAFTA) is approved.

In actuality, NAFTA is three separate agreements regulating trade between and among the United States, Canada and Mexico. One agreement is a joint agreement among all three countries. Another is a bilateral agreement between Mexico and the United States. The third is another bilateral agreement between Canada and Mexico.

These NAFTA agreements do not create level playing fields among agricultural commodities or producers, nor do they provide for an adequate system of dispute settlements.

Throughout the period of negotiations of the initial NAFTA accords, we had requested corrective action to resolve the agricultural trade problems that have been created for Northern Plains producers resulting from the Free Trade Agreement with Canada. They were not corrected.

We have continued to press for the agricultural production sector to have the same opportunity as environmental and labor issues in the negotiations on side agreements. We would request that the members of this subcommittee join us in such an effort.

We would also ask you to oppose the extension of any fast-track procedure for consideration of either the NAFTA or the GATT agreements. We believe that Congress should reserve the right to fully review these agreements and if necessary to amend them as may be appropriate. Fast track does not allow for the full consideration of the issues that affect agricultural producers.

As it stands today, we have no choice but to oppose the North American Free Trade Agreement. We do not believe that the current agreement provides for a fair trading arrangement among the three countries. We believe that the NAFTA agreement will be especially harmful to the Northern Plains and Midwest and our agricultural sector.

We believe that the benefits projected by the U.S. Department of Agriculture resulting from NAFTA for various segments of U.S. agriculture are based on inadequate studies and selective, self-serving economic statistical data.

Rather than USDA studies, we are more inclined to agree with an overview by the

Congressional Office of Technology Assessment that NAFTA would not automatically benefit the United States, and that it could, in particular, hurt rural economies.

Because of our experience with the current free trade agreement with Canada, we are more inclined to believe a study by the Federal Reserve Bank of Dallas, which estimates that free trade would result in a loss of agricultural income of 20% or more for states such as North Dakota.

We believe the benefits of the NAFTA agreement to the agricultural community have been grossly exaggerated.

For example, in the last number of years, U.S agricultural exports to Mexico have ranged in the neighborhood of two-thirds to 80% of all the agricultural goods imported by Mexico. When you already have a dominant market share of the agricultural products imported by Mexico, there isn't a whole lot of room for additional expansion.

To be more specific, let's take a look at wheat. The USDA analysis for wheat indicates that at the end of the ten-year transition period, NAFTA would likely add about $30 million annually to U.S. wheat industry gross revenues.

If wheat producers in North Dakota were able to capture the entire additional wheat market in Mexico (which is an impossible probability) it would mean less than a 4% growth in North Dakota's gross income from wheat.

It should be noted that the USDA study acknowledges that NAFTA would further reduce the price of wheat in the marketplace. In other words, we would again be growing more grain for less money.

We would also be competing against Canada for the wheat market in Mexico. It should be noted that during this past marketing year, the U.S. share of Mexican wheat imports dropped to 23%, while Canada has increased its share to 76%.

The proponents of NAFTA base their agricultural benefits mostly on the growth of sales of feed grain exports to Mexico, primarily corn and sorghum. North Dakota's primary feed grain is barley. We are again in direct competition with Canada for that market.

We are also concerned with the impact of NAFTA on our livestock sector. NAFTA would exempt Mexico from the U.S. Meat Import Law. If NAFTA is approved, there is no question that that the livestock feeding and processing industry will be moving further south. Under NAFTA, Mexico is expected to increase their production of feeder calves for export to the United States.

Currently, the U.S. imports about 1 million head of feeder calves.Not only will our cow-calf operators face increased competition from Mexico, but they will also be facing greater distances for primary markets. Both these factors will tend to lower prices to our beef producers.

Together with undercutting our nation's Meat Import Law, NAFTA will undercut Section 22 of our farm law. Section 22 allows the U.S. to establish quotas and countervailing duties when imports threaten to displace domestic production covered by our farm programs.

As indicated earlier Section 22 could be used to stop the increased wheat, durum and barley imports from Canada, which are undercutting both our domestic farm program and our export programs. But, so far, our govemment has refused to use this tool.

Section 22 also allows us to maintain a domestic sugar industry and protect it from the volatility of the international marketplace. This has become primarily a dump market in which excess sugar is consistently sold at well below production costs.

If the proponents of NAFTA were being fully honest, they would have to admit that under NAFTA, Mexico would build a sugar industry while we would be forced to dismantle ours.

NAFTA also includes a provision to allow other countries to join NAFTA. These other countries would then also be exempt from our Meat Import Law and Section 22. This would be especially attractive to other nations, such as Australia and New Zealand, which are large agricultural exporters.

We believe that closer attention must be given to studies which indicate that the primary "winners" in NAFTA would be multi-national businesses, including the agri-business giants that already dominate our marketplaces. Those studies also indicate that among the primary "losers" in NAFTA would be small farmers and rural communities on both sides of the Mexican border.

In the meantime, there are those who are recommending that we use the EEP program for grain exports to Mexico to send a message to Canada. We believe a much more effective message would be for the United States to use our existing Section 22 authority to create a level playing field for wheat, durum, and barley producers.

If we are honest, we would recognize that the export enhancement program is a short-term attempt to postpone a continuing long-term problem. The problem is the escalating international pricing war in grains, while producing nations continue to increase production in hopes that excess supplies can be dumped into an already saturated marketplace.

While the EEP program may provide a temporary blip in market prices, the inevitable longer-term result is to force competing nations to lower prices and/or increase subsidies. The result is lower international market prices, further reducing net farm income to American farmers.

Rather than a targeted program to compete with unfair export subsidies, EEP has become a dumping program which allows consumer nations to purchase grain at prices significantly below the costs of production.

Rather than escalating the trade war, the United States should change its strategy in trade negotiations. Anti-dumping provisions in GATT should be strengthened so that no nation can subsidize exports below its costs of production. Exporting nations must share in production adjustments in times of excess supplies. Both exporting and importing nations must share in the costs of grain reserves.

Instead of adding fuel to the fires of trade wars, the United States should be taking the leadership to stabilize agricultural production and pricing here at home and internationally.

Food production is inherently different from other economic sectors. We believe there is more to be gained by world cooperation in food than through unrestrained competition which forces producers to accept the lowest common denominator.

Unrestrained competition is not fair trade nor is it free trade. Instead it is the tilting of the marketplace to serve the needs of commodity buyers, traders, and processors at the expense of producers.

We disagree with current trade policy directions both in NAFTA and in GATT which seek to eliminate governmental involvement in assisting producers to achieve orderly marketing of their production through price and production stabilization measures.

Producers throughout the world have established cooperative and governmental infrastructures to allow them to have a more equal footing in the marketplace with the buyers of agricultural commodities.

The same cooperative movement that led to the organization of the network of farmer cooperatives in the United States also led to the formation of the Canadian grain co-ops and the Canadian Wheat Board. These efforts represent the work of farmers trying to achieve greater control over their economic destiny.

The future of the Canadian Wheat Board should be decided by producers in Canada and not through trade negotiations.

We believe that trade negotiations would have a more positive impact upon agriculture if they would recognize the right of sovereign nations to develop their own food policies and infrastructures.

In the final analysis, our fight is not with Canadian producers, nor with the farmers of Australia or Argentina. Our fight is for equity and for justice for food producers, whatever their nationality.

Our goal is not to bring everybody down to the lowest common denominator. Our goal is to build up prosperous rural communities and rural societies throughout this world.

The real challenge is not about market share. The real challenge is to produce food for a hungry world and to share that food with those who need it.

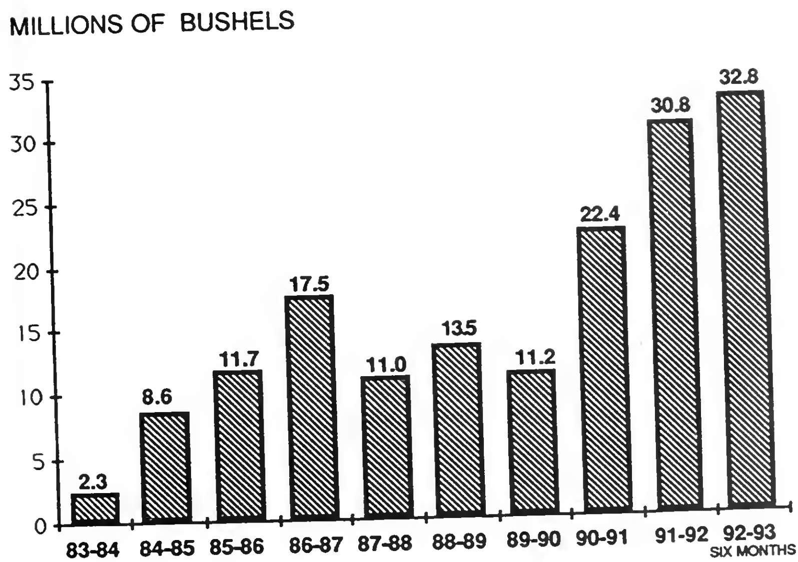
As family farmers, we are part of a proud profession that not only serves as producers of food and fiber, but also as stewards of this good earth.

As such, we hold the future of the world in our hands. And it is time that the world understands that when they neglect the world's farmers, they neglect their own future.

Thank you.

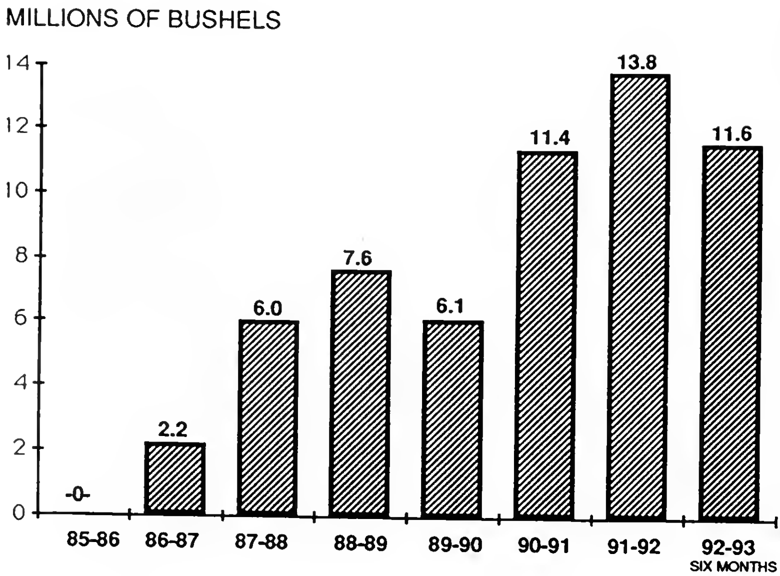
NDFU CHART #1

# US IMPORTS OF CANADIAN WHEAT



NDFU CHART #2

# US IMPORTS OF CANADIAN DURUM

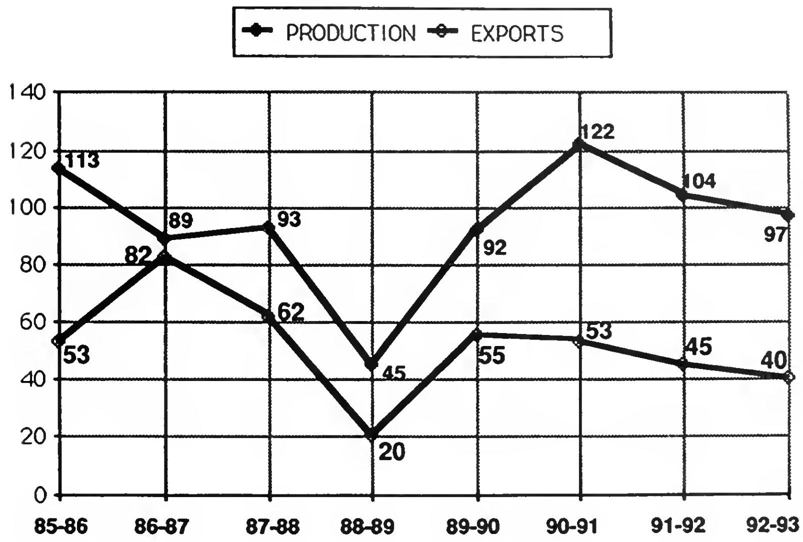



SOURCE: CANADIAN GRAIN COMMISSION

NDFU CHART #3

# US DURUM PRODUCTION & EXPORTS

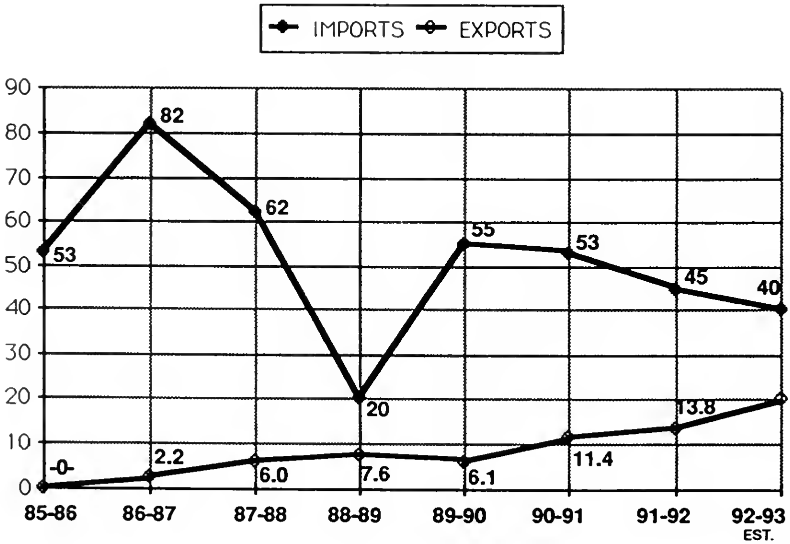
MILLIONS OF BUSHELS




**US EXPORTS 45-50% OF DURUM PRODUCTION**

NDFU CHART #4

# US DURUM
# IMPORTS & EXPORTS




Mickey Kantor
United States Trade Representative
600 17th Street NW
Washington DC, 20506

Mike Espy, Secretary
U.S. Department of Agriculture
12th & Jefferson
Washington DC 20250

Dear Ambassador Kantor and Secretary Espy:

Last month we wrote to you concerning rumors that the Canadian government was considering allowing direct sales of barley by Canadian farmers into our domestic grain marketing system. It is our understanding that this decision is now pending in the very near future.

We are deeply concerned that Canadian action to try to create a so-called "continental barley market" will have serious price and market consequences within the United States domestic and export markets.

Since our previous communications to you we have had the opportunity to review the study that is being used by the Canadian government as a basis for its pending decision ("An Economic Analysis of a Single North American Barley Market" by Colin A. Carter of the University of California, Davis.) We have also reviewed other analyses of the issue and critiques of this study.

We believe that the Carter study has some basic flaws. The primary flaw is its assumption that the United States, which is the largest producer and exporter of feed grains in the world, has significant feed deficit areas that could be competitively served by Canadian barley imports.

While there are U.S. localities in which feed use exceeds feed production, the United States is not a feed deficit nation. Our localized feed deficit areas are currently being served by domestically-produced feed grains from feed-surplus areas within the United States. There is no concrete evidence that Canadian producers could fill the demand in these areas more efficiently or competitively than existing suppliers.

In fact, in most situations the only way Canadian barley could serve these feed barley markets is if that barley were heavily

discounted in price or otherwise subsidized by Canada. To competitively serve the West Coast markets cited by the study, Canada would need to use the Western Grains Transportation Act subsidy which would be patently illegal under the terms of the U.S.-Canada Free Trade Agreement.

The Carter study sets aside serious economic review of the simple fact that other U.S. domestically-produced feed grains and other feeds can be readily substituted for barley whenever domestic feed price relationships make such substitution economical.

Another fundamental flaw in the study is its assumption that the United States would provide a consistently higher priced market for Canadian barley producers and that those higher market prices could be sustained.

The exact opposite would occur. Since most U.S. barley is grown in northern border states, the availability of individual cross-border sales by Canadian producers would put significant price pressure on U.S. barley market prices. Those prices would then become the base price level in the United States. The result would be lower U.S. market prices.

As the largest feed grains exporter, the United States domestic price sets the bottom line in world market prices. Thus, the result of action by the Canadian government would be to lower barley prices in both the U.S. and world markets. This would quickly come around the loop and translate into lower barley prices for Canadian producers.

We would acknowledge that there appears to be limited local markets along the U.S.-Alberta border which theoretically might be competitively served by Canadian barley. However, this is only true when U.S. market prices are compared to the initial price of the Canadian Wheat Board. This is comparing apples to oranges.

At best, the proposed action would result in temporarily advantaging a limited number of Canadian producers along the border to the detriment of the vast majority of producers on both sides of the border and a long-term reduction in prices to farmers.

The Carter study attempts to generalize niche marketing potentials into broad-based opportunities. The action contemplated by the Canadian government would be comparable to opening flood gates in order to provide water for a drip irrigation system.

In addition to assuming market potential for feed barley, the Carter study projects growth for sales of malting barley at a time when the growth in U.S. beer consumption is fairly flat.

Again, the additional availability of Canadian malting barley moving through the U.S. grain marketing system will serve to lower malting barley premiums and barley prices in general to U.S.

producers. The Carter study inaccurately assumes that Canadian producers would be selling directly to end users, rather than to border elevators.

The Carter study assumes that U.S. producers and government would stand idly by while Canadian barley displaces domestically-sold production. It would not make economic or political sense for the United States to allow Canadian barley to undercut its domestic price support programs and its export enhancment programs. Nor will U.S. producers allow price competition to put them out of business. They will have little choice but to meet the price competition.

Why would the United States permit increased imports of barley through the back door from Canada, when at the same time it has been having increased difficulty in moving barley and barley malt out the front door into the international marketplace through substantial subsidies under the export enhancment program?

The Carter study assumes that the proposed change to a "continental barley market" could not be countered under the U.S.-Canada Free Trade Agreement. We believe that such a change would be the basis for re-establishing both quantitative restrictions and import fees as allowed by Article 705.5 of the agreement.

Like many other trade reports, the Carter study assumes that the aggregrate growth in markets resulting from increased production and lower prices would offset income losses to producers. Our experiences during the past decade with such economic approaches have resulted in the loss of hundreds of thousands of farmers, agricultural economic strangulation and rural depopulation.

We therefore request that both the Office of U.S. Trade Representative and the U.S. Department of Agriculture be prepared to take whatever steps are necessary to protect the interests of U.S. barley producers if the Canadian government continues to proceed on its unilateral course toward establishing a "continental barley market."

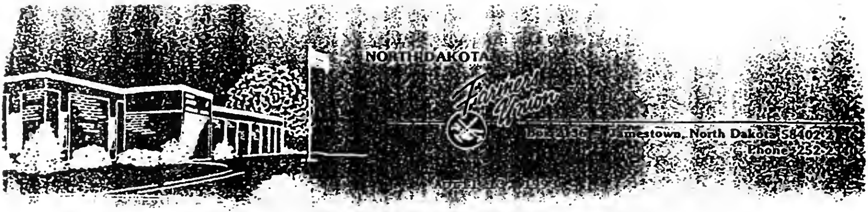
Yours truly,

NORTH DAKOTA FARMERS UNION

Alan Bergman

Alan Bergman
President

AB/KL:st
cc Senator Kent Conrad
Senator Byron Dorgan
Representative Earl Pomeroy
ND Agriculture Commissioner Sarah Vogel
North Dakota Barley Council
National Farmers Union




Mike Espy, Secretary
U.S. Department of Agriculture
12th & Jefferson
Washington, DC 20250

Dear Secretary Espy:

We are deeply concerned that direct sales of barley by Canadian farmers into our grain marketing system would seriously disrupt both our domestic and export marketing and pricing structures.

In recent weeks, we have been increasingly hearing reports that the Canadian Wheat Board is considering allowing barley producers in the prairie provinces to sell their barley directly to grain elevators across the border within the United States rather than through the single-desk marketing system of the Canadian Wheat Board.

Such a change would clog up our marketing system at our local market outlets, further compounding our storage, transportation and marketing structures. Those of us in border states are especially susceptible to these problems.

We are already experiencing a flow of so-called "feed wheat" from Canada into our marketing channels. Wheat classified as feed quality by the Canadian Wheat Board is being marketed directly by producers and their agents into our marketing system.

Because U.S. wheat grading standards are much wider than Canadian standards, much of this "feed wheat" is moving directly into regular wheat marketing channels, further displacing domestically-produced wheat in our marketplace.

Whether or not the Canadian Wheat Board would restrict direct barley sales to feed barley will make little difference on this side of the border. The line between malting and feed barley in any given year can be rather narrow and is determined by the quantities and qualities available, the price relationships, and the particular preferences of the maltsters.

If the Canadian Wheat Board opens this door, our marketing channels will be flooded by Canadian barley. The inevitable result of such additional market pressure will be the lowering of our domestic commodity prices for both malting and feed barley, and therefore lower income for American producers. Most certainly, the price differential between malting and feed barley will also be reduced.

We have already seen Canadian barley imports almost double in the past three years through sales by the Canadian Wheat Board. We don't need another end-run being taken at our domestic marketplace through another change in the Canadian marketing system.

Since barley and barley malt has become eligible for the export enhancement program, it would be essential that there be some system for tracking this Canadian barley within American marketing channels.

Right now, there is no tracking system in place. However, USDA regulations do prohibit imported grain from being exported under the export enhancement program. If there is any question of the origin of barley that is moving toward export, that particular lot would end up heavily discounted. American farmers would again be the ones who get short-changed in the process.

We have and will continue to support legislation to establish end-use certificates for grain imported into the United States. Whatever system is eventually devised, permitting individual Canadian producers to sell directly into the U.S. market would most certainly complicate tracking procedures.

We would appreciate whatever you and the U.S. Department of Agriculture can do to dissuade the Canadian Wheat Board from taking such an ill-advised course of action.

We do not believe it to be in the long-term interests of producers on either side of the border. We know it would be disastrous to barley producers in our state. As you may know, North Dakota is consistently the top producer of barley in the nation and produces almost one-third of the national crop.

We would further appreciate your advice and counsel on what other steps could be taken to protect U.S. producers and to prevent our marketing channels from being invaded by an onslaught of individual shipments of Canadian barley.

Yours truly,

NORTH DAKOTA FARMERS UNION
BOARD OF DIRECTORS

Alan Bergman, President

AB/KL:st

cc Senator Byron Dorgan
Senator Kent Conrad
Representative Earl Pomeroy
ND Agriculture Commissioner Sarah Vogel


June 11, 1993

Mickey Kantor
United States Trade Representative
600 17th Street NW
Washington DC 20506

Mike Espy, Secretary
U.S. Department of Agriculture
12th & Jefferson
Washington DC 20250

Dear Ambassador Kantor and Secretary Espy:

The action taken by the Canadian government last week to allow individual farmers to export barley directly into the marketing channels within the United States has serious potential consequences for U.S. producers, our grain marketing structures and our export programs.

North Dakota is the nation's largest producer of barley. We normally produce 30 percent of the nation's barley supply. The Canadian government's action, which will become effective August 1, will clog our marketing system and inevitably lower the prices paid to producers for both malting and feed barley.

The Canadian government's action on barley comes on the heels of ongoing problems of significant increases in Canadian exports of barley, durum wheat, spring wheat and so-called feed wheat to the United States.

North Dakota grain farmers cannot continue to be battered with grain imports that result from an unlevel playing field between the two nations. We cannot continue to accept grain imports through the back door from Canada, while we are increasingly having to rely on export subsidies, such as the export enhancement program, to move our own grain out the front door into international markets.

We believe the only way the Canadian government will take the concerns of U.S. grain producers seriously is if our nation responds to this latest action by invoking the Section 22 provisions of our farm law.

Section 22 is a recognized exemption under the General Agreement on Tariffs and Trade. It is also recognized as a right under the existing Free Trade Agreement with Canada.

Section 705.5 of the United States-Canada Free Trade Agreement clearly provides the right to challenge this latest action of the Canadian government in regard to barley.

The Statement of Administrative Action by the United States accompanying the agreement clearly anticipated this Canadian action. It states that a substantial change within the meaning of Article 705.5 includes a "...change in the current Canadian policy regarding the distribution of permits to export grain into the United States such that private entities were freely granted permits regardless of market conditions..."

We therefore request you take the necessary steps for a Presidential determination that the conditions for invoking Section 22 have been met and then proceed to establish quotas and/or fees so that U.S. producers have a level playing field with their Canadian counterparts.

We believe that such action should be taken prior to August 1, which is the announced effective date of the Canadian action.

Yours truly,

NORTH DAKOTA FARMERS UNION

Alan Bergman

Alan Bergman
President

AB/KL:st

cc U.S. Senator Byron Dorgan
U.S. Senator Kent Conrad
U.S. Representative Earl Pomeroy
ND Agriculture Commissioner Sarah Vogel
Governor Edward Schafer
North Dakota Barley Council
National Farmers Union

Testimony of the
**Minnesota Farmers Union**
before the
## U.S. House Subcommittee on General Farm Commodities
Presented by
**Legislative Services Director Julie Bleyhl**
June 12, 1993
Moorhead, Minnesota

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Mr. Chairman, my name is Julie Bleyhl and I serve as the Legislative Services Director of the Minnesota Farmers Union. The Minnesota Farmers Union represents 25,000 people who depend on family farming and the rural communities it supports. I appreciate the opportunity to testify before you today on behalf of the Minnesota Farmers Union's membership.

It is often said that liberalized trade, what the Reagan and Bush Administrations and now the Clinton Administration characterizes as free trade, will be a boon to U.S. producers. We're told that it will open new markets, expand others and help farmers get higher prices for the commodities they produce. To benefit from these new and expanding markets, our Presidents have negotiated international agreements such as the North American Free Trade Agreement and the General Agreement of Tariffs and Trade on our behalf.

Approval of those agreements lies with Congress, people such as you who are supposed to ensure that government and its programs function in the best interests of people. For that to happen, the Minnesota Farmers Union believes that NAFTA and GATT must not be approved – even if side agreements are drafted that provide so-called fixes. Both agreements are inherently flawed. And the Minnesota Farmers Union does not believe that these agreements, particularly in their current form, are in the best interests of producers in Minnesota or any other state.

The proposed agreements do open markets but, at the same time, they do nothing to protect U.S. producers from an influx of foreign commodities that cost less, are of lower quality and don't meet the same stringent food-safety regulations that U.S. producers must meet. Creating a wide-open, laissez faire system will reap economic disaster on this nation's family farms, its rural people and the food all of us – farm and city folk – eat every day.

Today, I would like to paint a picture of the potential economic damage that these trade agreements would create if approved in their current form. The facts behind our experience with Canada and the existing trade agreement the U.S. has with Canada show that liberalizing trade does not help producers. In fact, it does the opposite. It causes economic damage as foreign countries – even politically friendly ones such as Canada – use the provisions of such agreements

to their own advantage. Neither Canada nor any other country should be faulted for its actions. Free trade means what it implies: an open market for everyone to compete.

But producers, per se, don't do the competing nor do they reap the economic benefits in a wide-open, free trade system. In the U.S., five firms – with Minneapolis-based Cargill topping the list – control 46 percent of the grain trade, according to a 1990 study from the University of Missouri-Columbia. Any profits that grow out of a liberalized trade system will remain at the corporate level. As the country saw under 12 years of leadership by Ronald Reagan and George Bush, the profits won't trickle down to producers.

The market control of these companies is not limited to the U.S. Other countries, particularly those in the European Economic Community, provide their producers with higher price supports. But even government programs such as those don't and won't stop these huge, multi-faceted food companies from using trade agreements to their advantage in any country that is part of an international agreement to liberalize trade.

Producers are dependent on market prices – prices that history shows follow the loan rate. Except in times of short supply, market prices remain, for the most part, at slightly above the loan rate. Such a practice keeps farm income low but not low enough that producers – many of whom sell their grain to small, country elevators that aren't owned by the grain giants – can't find the economic wherewithal to keep pumping raw commodities into the system.

The fate of a grain company's profit-and-loss margin rests with a number of other factors, the least of which is the market price or the conventional supply-and-demand theory. Rather, grain companies have significant control over their economic condition. Although oversimplified, their grain holdings give them the ability to create market conditions – domestically or internationally – that allow them to follow the old rule of "buy low and sell high."

But the Minnesota Farmers Union believes that producers' ability to economically stay ahead of the this game and keep farming is coming to an end with the advent of agreements such as GATT and NAFTA. Both agreements are designed to help a company collectively move grain on the market rather than give family farms the opportunity to receive a price that covers actual production costs and provides an economic standard of living that approaches even an acceptable level.

Since the U.S.-Canada Free Trade Agreement was signed in 1987, Canadian exports to the U.S. have increased. Wheat shipments alone, including durum, increased from 2.3 million bushels in 1983 to 17.5 million bushels in 1988. During

that five-year period, durum imports jumped from zero bushels to 6 million bushels.

Since 1989, Canadian wheat and durum shipments to the U.S. have continued to explode. In 1992, all wheat shipments from Canada reached 30.8 million bushels. Figures for 1993 are not yet complete, but statistics through February showed that wheat exports to the U.S. were already at a record 36.2 million bushels.

While Canada has increased its exports, U.S. wheat exports have continued to decrease, according to USDA statistics. In 1983, the U.S. exported 1.4 billion bushels of wheat. By 1992, wheat exports had dropped to 1.1 billion bushels.

Those numbers speak for themselves. Despite the fact that American farmers produced more wheat, U.S. exports fell by 300 million bushels from 1983 to 1991 while Canadian imports grew by 33.9 million bushels during that same time.

Export and import statistics from other wheat-producing countries show the same trend. Foreign countries continue to produce more of their own wheat and reduce their reliance on U.S.-grown wheat.

Free trade, a concept that producers have heard about since 1980, hasn't helped U.S. markets. Our exports continue to drop despite claims to the contrary that foreign markets are the hope for our future.

The Minnesota Farmers Union does not contend that all we produce can be consumed domestically. But Congress, under any trade agreement, must ensure that the market trends of the 1980s and 1990s don't continue. If Canada can increase its exports, the U.S. ought to be able to do same so producers can benefit from these markets.

Yet any trade agreement also must consider the impact imports have on U.S. producers, particularly here in prime wheat and durum country. Prior to the U.S.-Canada Free Trade Agreement, U.S. producers received a substantial premium for durum since it was considered a specialty crop. Since the agreement went into effect, the premium has disappeared and, for a long period of time, producers got a higher price for hard red winter wheat.

The Minnesota Farmers Union believes that the market impact described above was a direct impact of the U.S.-Canada Free Trade Agreement. The prairies of North Dakota and the prairies of Saskatchewan share more than their ability to produce wheat. They also are close enough to use the same terminals, which has a significant impact on the U.S. market.

Here in Minnesota, the Farmers Union fears that the same situation that occurred with durum will happen with barley. But, unlike durum, shipments of barley

across the border will have a larger economic impact because of increased volume.

Canada grows 25 percent more barley each year than the U.S. Given the Canadian track record of using exports to its advantage and the Canadian agricultural minister's desire to remove barley from the control of the Canadian Wheat Board, the fear is not baseless.

Such a massive release of barley across the border would strike another blow to producers already reeling from the durum influx. The prices U.S. producers receive would drop, sending already poor farm incomes even lower.

Prior to the enactment of the U.S.-Canada Free Trade Agreement, the U.S. imported 5 to 8 million tons of barley annually from Canada. Since the agreement, that amount has grown to 25 million bushels. Projections for 1992-93 are down 10 million bushels because of poor-quality malting barley. But such a drop in exports would be a strong incentive for Canada to open the barley market and remove it from the control of the Canadian Wheat Board.

Imports of wheat and barley from Canada have caused a stir in Minnesota. Farm and commodity organizations supported state legislation this year that would have required a penny-a-bushel assessment on wheat and barley brought into Minnesota from Canada. The assessment proposed was the same assessment that Minnesota farmers pay as a check-off fee for research and promotion activities.

Despite passage in both the state House and Senate, Minnesota's governor vetoed the bill.

Actions such as this on the state level indicate that so-called free trade with Canada already has delivered benefits – but U.S. farmers haven't been the recipients. Rather, foreign growers and the grain giants that buy their grain have been the beneficiaries.

Plans to use the Export Enhancement Program in Canada make little sense to Minnesota Farmers Union members. EEP funds benefit companies such as Cargill that resisted and worked against attempts to have imported grain fall under the same rules as domestically produced grain. Rather, the Minnesota Farmers Union believes that the USDA should spend the money on methods such as increasing loan rates to help raise income on the nation's family farms.

Imported processed products that contain commodities grown here in the U.S. also are a threat under any trade agreement. Sugar products from Canada have increased from 3,796 metric tons in 1989 to a current level of 118,456 metric tons.

In other words, Canada shipped the equivalent of almost 90 percent of all the sugar it produced domestically in 1992 to the U.S. in one year. Imports such as these threaten sugar beet producers in Minnesota and the continued viability of the sugar program.

Although not grown in Minnesota, peanuts and peanut paste are other examples of free trade threats. Companies can bring these products in for 25 cents less a pound than U.S.-grown peanuts, leaving USDA to purchase much of the domestic crop. Those purchases could cost $100 million if current trends continue to the end of the century, leaving Congress with a spending problem created by trade agreements that are supposed to help rather than hurt U.S. producers.

The result of scenarios such as this is not difficult to see. As history has shown, Congress likely would revamp or eliminate farm programs to reduce spending. The losers would be efficient family farmers who follow environmentally sound practices that preserve their land, resources and the rural communities whose infrastructure and tax base depend on these farms for economic support.

The winners would be companies that use so-called free trade to their own advantage, which is nothing more than making sure that company profits keep growing.

I appreciate the opportunity to testify today, and I'll be glad to answer any questions.

But in closing, I want to emphasize that the Minnesota Farmers Union believes NAFTA and GATT would do more harm than good. There are many elements I haven't discussed such as food safety, the environment and jobs.

But as Washington, D.C., focuses its attention on free trade, actual farm income continues to decline – as do our rural communities and the people who live there. At the same time, Cargill – a major player in the secret trade negotiations that produced NAFTA – continues its profitable reign atop America's ***Fortune 500*** companies.

That, Mr. Chairman, is free trade in action. And the facts show it doesn't work.

REPORT TO THE
SUBCOMMITTEE ON GENERAL FARM COMMODITIES
BY
HOWARD SCHMID, PRESIDENT
NORTH DAKOTA FARM BUREAU
JUNE 12,1993

The Canadian Free Trade Agreement has greatly damaged the durum market of the United States since its inception. This damage is due to the flooding of the U.S. domestic market with Canadian durum. As the following charts will indicate Canadian shipments of durum increased by 528% during the five year period of 1986 to 1991, as you will also notice the shipments of all wheat to the United States has also risen. The dramatic rise in durum imports during this period has caused the price for domestic durum to fall by $.72/bushel. It is quite obvious that durum producers have suffered due to the trade agreement with Canada, this statement may become apparent for wheat as a whole in the future.

Chart 1

SHIPMENTS OF CANADIAN WHEAT TO THE UNITED STATES

| Marketing Year (June-May) | ALL WHEAT 000 MT | ALL WHEAT Mil. Bu. | DURUM 000 MT | DURUM Mil Bu. | SPRING 000 MT | SPRING Mil.Bu. |
|---|---|---|---|---|---|---|
| 1982-83 | 126.9 | 4.7 | 0 | 0.0 | 126.9 | 4.7 |
| 1983-84 | 62.5 | 2.3 | 2.6 | 0.1 | 59.9 | 2.2 |
| 1984-85 | 235.4 | 8.6 | 0 | 0.0 | 235.4 | 8.6 |
| 1985-86 | 317.5 | 11.7 | 0 | 0.0 | 317.5 | 11.7 |
| 1986-87 | 477.2 | 17.5 | 58.8 | 2.2 | 418.4 | 15.4 |
| 1987-88 | 298.8 | 11.0 | 163.8 | 6.0 | 135.0 | 5.0 |
| 1988-89 | 366.2 | 13.5 | 208.0 | 7.6 | 158.2 | 5.8 |
| 1989-90 | 303.7 | 11.2 | 165.3 | 6.1 | 138.4 | 5.1 |
| (June-May) 1990-91 | 609.6 | 22.4 | 310.6 | 11.4 | 299.0 | 11.0 |

Source: Canadian Grain Commission

Chart 2

**CANADIAN SHIPMENTS OF DURUM TO THE US**
**(US Marketing Years - Monthly)**
**(000 Tons and Million Bushels)**

| | 1986-87 | | 1987-88 | | 1988-89 | | 1989-90 | | 1990-91 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Tons | Bu. | Tons | Bu. | Tons | Bu. | Tons | Bu. | Tons | Bu. |
| June | 0 | | 0.2 | | 18.7 | (0.7) | 2.0 | (0.1) | 9.9 | (0.4) |
| July | 0 | | 7.1 | (0.3) | 29.4 | (1.1) | 14.7 | (0.5) | 18.5 | (0.7) |
| August | 0 | | 13.2 | (0.5) | 27.7 | (1.0) | 18.7 | (0.7) | 9.0 | (0.3) |
| September | 0 | | 10.3 | (0.4) | 13.9 | (0.5) | 15.4 | (0.6) | 23.9 | (0.9) |
| October | 0 | | 21.9 | (0.8) | 28.2 | (1.0) | 13.1 | (0.5) | 33.0 | (1.2) |
| November | 6.5 | (0.2) | 17.3 | (0.7) | 13.9 | (0.5) | 26.6 | (1.0) | 38.8 | (1.4) |
| December | 6.8 | (0.3) | 25.4 | (0.9) | 13.5 | (0.5) | 25.5 | (0.9) | 32.0 | (1.2) |
| January | 5.0 | (0.2) | 13.1 | (0.5) | 10.8 | (0.4) | 5.4 | (0.2) | 57.4 | (2.1) |
| February | 4.7 | (0.2) | 14.9 | (0.5) | 11.4 | (0.4) | 4.9 | (0.2) | 8.4 | (0.3) |
| March | 13.7 | (0.5) | 21.6 | (0.8) | 12.1 | (0.4) | 1.3 | (0.1) | 25.9 | (0.9) |
| April | 11.9 | (0.4) | 9.9 | (0.4) | 24.2 | (0.9) | 9.9 | (0.4) | 17.0 | (0.6) |
| May | 10.2 | (0.4) | 8.9 | (0.3) | 4.2 | (0.2) | 27.8 | (1.0) | 32.8 | (1.2) |
| Total | 58.8 | (2.2) | 163.8 | (6.0) | 208.0 | (7.6) | 165.3 | (6.1) | 310.6 | (11.4) |

A similar deterioration is possible with barley. Dr. Colin Carter, University of California-Davis recently did a study for the Associate Deputy Minister, Grains and Oilseeds Branch, Agriculture Canada. This study was entitled <u>" An Economic Analysis of a Single North American Barley Market"</u>. Dr. Carter stated that there is a possible export market of 900,000 MT of Canadian barley. The breakdown of this possible market is 400,000 MT malting barley and 500,000 MT of feed barley. It is unclear in the study if this amount is in addition to current production or represents the total amount. Regardless of which scenario is faced, U.S. producers face a significant price reduction for barley. These reductions would be from 10-20 cents per bushel and translate into a revenue loss to barley producers of 45-90 million dollars. Not only will the producer suffer a loss due to increased Canadian barley exports,

45 or 90 million dollars. Not only will the producer suffer a loss due to increased Canadian barley exports, but the U.S. Government would also be subject to greater exposure through EEP and Deficiency Payments.

Farm Bureau has a free market philosophy, and is supportive of free trade agreements, but only when we are allowed to compete on a level playing field. Policy adopted at the 74th meeting of the American Farm Bureau states; We support the North American Free Trade Agreement (NAFTA) as signed by President Bush, and urge its adoption by Congress. We support the incorporation of measures in the implementing legislation to strengthen transitional safeguards to accommodate the concerns of specific commodity interests. We support the inclusion of language in the implementing legislation requiring congressional approval for the accession of other countries to NAFTA. The exclusion of Canadian agriculture from this agreement is discouraging. The Canadian Free Trade Agreement currently does not allow us to compete on an equal basis with Canadian farmers. The transportation subsidy program and the Canadian Wheat Board pricing policy have made it very difficult,if not impossible to compete with our neighbors to the north.

The Export Enhancement Program (EEP) has been a useful tool in dealing with subsidized trade from other countries. Farm Bureau feels that EEP should be made available to all countries and all commodities where the United States faces unfair or subsidized competitiion from foreign suppliers. This program should continue

as long as the United States faces foreign subsidized competition in the various commodities. The United States must be prepared to counteract unfair subsidies by Canada, or any other country, with its own and NAFTA must not prevent this action.

Earlier in this text I eluded to Farm Bureau's concern for the maintenance of our domestic markets due to the increasing amounts of grains being imported from Canada. This influx of foreign commodities also threatens the well being of U.S. export markets. A market which has shrunk considerably in recent years due to expanded production and aggressive marketing by the EC and Canada. U.S. market share would shrink considerably if programs such as EEP were not available and utilized. The 1990 Farm Bill very clearly states that only commodities that have been produced entirely in the United States are eligible for participation in U.S. government assisted export programs. The increasing amount of Canadian grain exported here by the Canadian Wheat Board fosters concern that some of this foreign grain may be comingled with domestic production. The ability of local grain pools and individual producers to market barley directly into the country multiplies these concerns. Canada currently has a very stringent end-use certificate progran that must be adhered to by those handling grains of foreign origin. The system tracks foreign grains from the time of entry to the point of final use and protects the integrity of Canadian produced grain. Farm Bureau supports the adotion of a similar end-use certificate program in this country. A bill,S. 1993, which was sponsored by Senator Kent Conrad last year would meet these needs. The importers

of the commodity would be required to do the following:

A. The name and address of the importer of record of the foreign grain.

B. The name and address of the consignee of the grain.

C. The identification of the country of origin of the grain.

D. A description by class and quantity of the grain covered by the certificate.

E. Specification of the purpose for which the consignee will use the grain.

F. The identification of the transporter of the grain from the port of entry to the processing facility of the consignee.

The consignee of the grain would also be required to submit a quarterly report to the Secretary of Agriculture indicating what percentage of the grain covered in the end-use certificate was stored and what amount was used for the purpose stated in the end-use certificate.

End-use certificates should be required on all commodities where the Canadians require similar documentation. Farm Bureau cannot stress more the need to protect the integrity of U.S. export programs. If U.S. export programs are compromised or eliminated due to inclusion of foreign grains, the farming industry as a whole would be jeopardardized.

The opportunity to address the subcommittee is greatly appreciated. Hopefully, the testimony of North Dakota Farm Bureau and the other groups appearing before the subcommittee will be of assistance in your work on these very important issues.

IMPACT OF CANADIAN GRAIN IMPORTS
ON UNITED STATES BARLEY PRODUCERS
JUNE 12, 1993/SATURDAY
MOORHEAD TECHNICAL COLLEGE
MOORHEAD, MINNESOTA
TESTIMONY BY ROBERT D. IBES, SR., ELDRIDGE, NORTH DAKOTA
VICE CHAIRMAN, NORTH DAKOTA BARLEY COUNCIL

Mr. Chairman, Subcommittee members.

I am Robert D. Ibes, Sr. I operate a farm near Eldridge, North Dakota. My testimony today is presented as a barley producer. I feel my remarks reflect the thinking of all serious barley farmers. I am vice-chairman of the North Dakota Barley Council and a director of the National Barley Growers Association, an organization that represents over 75 percent of U.S. barley production.

The courtesy of the General Farm Commodities subcommittee members to meet today and listen to testimony is much appreciated. My remarks will be confined to the problems, real and perceived, created by the predatory marketing practices of Canada in export of barley.

North Dakota is perennially the largest barley producing state. Our barley is marketed into many markets - the malting barley market, feed and food markets, and since the advent of the Export Enhancement Program (EEP), a stable export market. It seems that no matter where we try to market our barley in recent years, whether it be domestically or overseas, potential buyers tell us the Canadians were already there, most often at a lower price.

Members of the North Dakota Barley Council favor free trade. However, because of inequities built into the United States/Canada FTA, the Barley Council has opposed the agreement in its present form prior to and since its inception. The recent decision by the Canadian government to remove barley exports from the sole jurisdiction of the Canadian Wheat Board magnifies the impact of Canadian barley imports. Imports of Canadian barley depress United States barley prices. At the same time Canadian imposed restrictions such as import permits, end use certificates, denaturing and/or dyeing of potential U.S. barley exports to Canada has essentially resulted in an embargo on U.S. barley and coproducts. Predatory pricing and licensing of malt beverage imports by Canadians precludes our brewers being a force in that market. Under terms of the Free Trade Agreement, Canadian malt beverage sales and distribution laws essentially remain intact. The net effect is to allow for a more fluid movement of Canadian malt beverages into the U.S. market while the Canadian market remains closed.

The Western Grain Transportation Act (WGTA) provides for substantial government subsidy on grain moving via Canadian railroads. This subsidy allows the positioning of Canadian grain at export facilities at extremely favorable competitive prices.

FTA regulations restrict the use of the Western Grain Transportation Act subsidies in the movement of grain westward for export into the United States. Use of the subsidy on eastward movement of grain into export, including U.S. destinations is not restricted by the FTA. The subsidy is so lucrative, indications are it is being used to rail barley from Western Canada east to Thunder Bay to receive this subsidy, then railed west as far even as Winnipeg and thence rerouted into U.S. markets. The transportation subsidy is such that it allows Canadian malting barley to be positioned in the heart of the U.S. malting barley and malt production areas at very low transportation costs.

Restrictions placed on use of the Western Grain Transportation Act subsidy for Canadian grain imports into western United States does not preclude the use of this subsidy for imports into U.S. off-shore markets including Pacific Rim and Latin American markets. Of prime concern to U.S. producers is the use of these transportation subsidies for Canadian imports into Mexico and other barley importing countries in competition with U.S. grain.

The U.S. must utilize EEP to combat the Canadian subsidy system. The Canadian predatory practice will continue to undermine U.S. domestic and export markets should we allow this situation to continue. A recent OECD study concluded Canada farmers are more heavily subsidized than those in the U.S. The Canadians are very quick to chastise the U.S. for its EEP program, although EEP is targeted to specific countries. The Canadians also have an EEP program in an expanded form -- it is called WGTA -- and is generic to all countries including portions of the U.S. Consider that WGTA subsidy amounts to as much as C$30.00/MT for all barley shipped to export facilities, compared to EEP of around US $35.00/MT to selected markets.

Canada perennially is the major source of U.S. barley imports. Annual U.S. barley imports were relatively minor, three to six million bushels, prior to implementation of US/Canada FTA. Since that time, barley imports have increased annually, with 1992 imports totaling 25 million, almost exclusively from Canada.

In the main that 25 million bushel import may appear relatively small at 5.4 percent of U.S. production. It does, however, represent a 360 percent increase in imports over 1986/87. This is, however, only a part of the picture, 12.3 million bushels imported during 1992 were malting barley and were sold into the premium malting barley market. This amounts to about eight percent of our malting barley market. These added supplies, delivered to the heart of the U.S. malt production area, is undoubtedly a reason for malting barley premiums frequently being less than the 5 percent malting barley assessment.

Annual declared customs' value of malting barley imports from Canada for the period, 1988-1992, averaged \$29.4 million. Annual value ranges from \$9,482,000.00 in 1988 to \$40,308,000.00 in 1989. During this same five year period, declared value of, barley other than malting barley imports averaged \$8.5 million. Total declared value, for malting and other barley amounted to \$26.7 million, 1988; \$43.8 million, 1989; \$33.7 million, 1990; \$44.5 million, 1991 and \$43.0 million, 1992. These figures are indicative of the financial loss to U.S. barley farmers created by Canadian imports.

The old saying, the past is prologue to the future, appears to be all too true under currently anticipated Canadian barley export policy. August 1, 1993, is the date set by the Canadian government to remove sole authority of barley marketing from Wheat Board jurisdiction. This step has been advocated by some Canadian barley producers for several years but has been resisted by other sectors of the total Canadian barley industry. It has been felt by U.S. producers that while the influx of Canadian barley has been increasing, the Wheat Board has acted with restraint and been a stabilizing influence in preventing an all out dumping program by Canadian barley producers and trade. U.S. producers look with dismay toward the final removal of Wheat Board influence over barley exports to the U.S. Minimal estimates of potential Canadian barley imports range from 41 million bushels to as high as 100 million bushels.

Colin Carter (1) estimated exports of Canadian barley to the U.S. could increase to 900,000 MT, or 41 million bushels.

He also estimated U.S. barley import demand elasticity of 19.29; meaning a one percent reduction in import price will result in a 19 percent increase in import volumes.

Five year average barley imports from Canada,1988-1992 calendar years, (since inception of FTA) equals 14.4 million bushels. A rise in imports from 14 million bushels to 41 million bushels is a difference of 27 million bushels. 27/14 equals 193 percent increase in imports. 193/19 equals 10 percent decline in <u>import</u> price required to move 41 million bushels into the U.S. market.

As import prices decline, domestic prices will trend downward in direct proportion so as to remain competitively priced. As a result, a ten percent decline in import prices likely will result in a similar reduction in domestic prices. This situation will lead to increased government budget exposure through increased deficiency payments and EEP expenditures. As prices decline, income from nonpayment production also declines.

Evaluating the effect the 41 million bushel import would have on U.S. barley market and program costs is not pretty to contemplate. Allowing 1992/93 barley marketing year figures to represent a relatively normal pattern of U.S. barley supply and demand and comparing this against the effect increased imports would have on producers income and government program costs is summarized here and in attached table.

It is anticipated total supplies of barley for the 1992/93 MY will amount to 597 million bushels. This includes 12 million bushels from imports, 456 million, bushels from 1992 production and 129 million bushel carry over.

A normal pattern of use based on the above supply assumptions and including exports of 80 million bushels would result in a carry over of 157 million bushels. Deficiency payments amounted to 56 cents per program bushel with total U.S. barley deficiency payments amounting to $160 million.

Leaving supply/use components the same but increasing imports to 41 million bushels and maintaining the 157 million bushel ending supply would require exports of 109 million bushels. It would result in a 9 cent per bushel loss in barley sale price for the barley producer. Deficiency payments would increase 9 cents per program bushel resulting in an increase of total U.S. deficiency payment of $37 million. Total U.S. farm barley income loss due to import surge would be $14 million. Change in costs to USDA from baseline would amount to $37 million added deficiency payments and the need for $23 million added EEP expenditures. Under this scenario total loss of producer income of $14 million and the added USDA program costs would amount to $74 million were 1992/93 barley imports increased from 12 to 41 million bushels.

Approaching the topic from a different angle, leaving supply the same including the 41 million bushel influx of Canadian barley, but allowing ending stocks to float and no EEP effort to maintain the 157 million bushel ending stocks we find: Producer price would drop another 3 cents for a total of 12 cents lost income per bushel from the base price. The producer would regain some of the added price loss through deficiency payments but this would only be on his program production. National barley producers in total would lose $16 million. Cost of deficiency payments to USDA would increase to $219 million or $59 million more than our base assumption. Totaling up the bill for this scenario: producer losses would amount to $16 million, USDA losses would amount to $59 million in increased deficiency payments and an increased EEP cost of $4 million for a total of $79 million loss to producer and increased USDA program costs.

Please realize these losses are calculated on only a 41 million bushel import total. This being true then realize what the cost could be at some of the higher levels of imports being forecast. What could be the cost at the 100 million bushel level suggested by some authorities?

Canadian interests boldly point out that their barley export program and essentially their suggested so-called Continental market are being targeted on the United States market. It is with chagrin that we find our own industry supporting this thought process. One only needs to review the increase in custom duties paid to import Canadian malting barley to realize the truth of this statement. These increases reflect increased malting barley imports. Good authority credits a United States maltster with announcing to a room of Canadian barley producers, and to the world, that Canada could have exported an additional 10 million bushels of blue malting barley to the United States this past year if they had tried.

The US/Canada FTA is anything but "free" as far as the United States producer is concerned. U.S. barley is essentially embargoed from moving into Canada. Internal restriction, end use certificates, denaturing/dyeing grain, varietal licensing and other insidious non-tariff stipulations effectively prevent movement of U.S. barley into Canada.

Suggested recourse tactics could include:

1. U.S. negotiators assume a more aggressive posture in evaluating Canadian interpretation of the FTA. The U.S. must review and require correction of inequities in the agreement. Of special interest would be negotiations to terminate the Western Grain Transportation subsidies on eastward movements of grain destined for export to the United States.

2. Negotiators must demand price transparency in the Canadian Pricing system.

3. Inclusion of end use certificates and/or certificates of origin for barley imported into U.S. must be implemented to prevent entry of imported grain into U.S. export grain stream.

4. USDA must aggressively use EEP to effectively compete with subsidized Canadian and other foreign grain imports into U.S. off-shore markets. An example would be the Mexican market where transportation subsidies move Canadian barley into export position at considerable discount compared to movement of U.S. grain into adjacent export facilities.

5. USDA/USTR must evaluate the potential of pursuing legal and/or other recourse avenues to address the unfair competitive situation enjoyed by Canadians in the interpretation of current FTA regulations.

6. The North American Free Trade Agreement (NAFTA) is being readied for congressional approval. Informal reviews indicate potential hazards in the barley regulations. Most glaring is the opinion held by many that the tariff free quota of 120,000 metric tons assigned to United States barley is not necessarily restricted to United States barley. There appears to be interpretations that indicate this 120,000 MT quota is really a continental quota and Canadian barley could be used to fill quota needs as well as United States barley. This situation is intolerable and origin of quota barley must be specifically stated.

7. Some students of NAFTA are of the opinion that not only will it not be restricted to the three countries currently involved, United States, Canada and Mexico, but eventually could be interpreted as a hemispheric agreement including South and Central America and even Australia. This could be a disaster in the making.

(Attachments follow:)

ESTIMATED IMPACT OF CANADIAN BARLEY IMPORT SURGES ON U.S. BARLEY FARMERS AND FARM PROGRAM COSTS

| ITEM | ACTUAL 1992/93 MARKETING YEAR | IMPORT SURGE: RETAIN ENDING STOCKS AT 157 MILLION BU. | IMPORT SURGE: ALLOW ENDING STOCKS TO FLOAT, NO EEP OFFSET |
|---|---|---|---|
| Beginning Stocks (000,000 bu.) | 129 | 129 | 129 |
| Production (000,000 bu.) | 456 | 456 | 456 |
| Imports (000,000 bu.) | 12 | 41 | 41 |
| Total Supply (000,000 bu.) | 597 | 626 | 626 |
| Food/Seed/Industrial (000,000 bu.) | 165 | 165 | 165 |
| Feed (000,000 bu.) | 195 | 195 | 205 |
| Exports (000,000 bu.) | 80 | 109 | 85 |
| Total Use (000,000 bu.) | 440 | 469 | 455 |
| Ending Stocks (000,000 bu.) | 157 | 157 | 171 |
| 5-Month Feed Barley Price ($/bu.) | 1.80 | 1.71 | 1.68 |
| Farm Program Participation Rate (%) | 75.1 | 80.0 | 85.0 |
| Deficiency Payment Rate ($/Bu.) | .56 | .65 | .68 |
| Program Payment Production (000,000 bu.) | 285 | 303 | 322 |
| Total Deficiency Payments ($000,000) | 160 | 197 | 219 |
| Loss in Farm Income Due to Import Surges | | | |
| Unprotested Production (000,000 bu.) | | 153 | 134 |
| Income Loss Per Bushel ($/bu.) | | .09 | .12 |
| Total Income Loss ($000,000) | | 14 | 16 |
| Change in Government Costs From Baseline: | | | |
| Deficiency Payment Rate Increase ($/bu.) | | .09 | .12 |
| Total Deficiency Payments Increase ($000,000) | | 37 | 59 |
| EEP Volume Increase (000,000 bu.) | | 29 | 5 |
| EEP Expenditure Increase ($000,000) | | 23 | 4 |
| Total Increase on Government Budget Exposure ($000,000) | | 60 | 63 |
| Total Producer Income Loss + Increase In Government Expenditures ($000,000) | | 74 | 79 |

CANADIAN WHEAT BOARD FINAL PAYMENTS TO GROWERS (CROP YEARS)
(FROM CUSTOMS IMPORT DATA BASE) ($/BUSHEL)

| | 1991/92 | 1990/91 | 1989/90 |
|---|---|---|---|
| CANADA $/MT | | | |
| Malting Barley (Special Select Six Row) | 126.93 | 142.79 | 201.41 |
| Other Barley ($1 CW) | 107.59 | 90.00 | 124.38 |
| U.S. $/bu.* | | | |
| Exchange Rate | 1.28 | 1.43 | 1.18 |
| Malting Barley (Special Select Six Row)) | 2.16 | 2.17 | 3.72 |
| Other Barley ($1 CW) | 1.83 | 1.37 | 2.29 |

* Exchange Rate

MARKETING YEAR AVERAGE PRICE RECEIVED BY NORTH DAKOTA PRODUCERS (U.S. $/bu.)

| | 1991/92 | 1990/91 | 1989/90 |
|---|---|---|---|
| Malting Barley | 2.00 | 2.10 | 2.48 |
| Feed Barley | 1.65 | 1.70 | 1.82 |

CUSTOMS IMPORT VALUE OF BARLEY FROM CANADA (CALENDAR YEARS)
(FROM CUSTOMS IMPORT DATA BASE) ($/BUSHEL)

| | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|
| Malting Barley | 3.62 | 3.89 | 3.47 | 2.57 | 2.29 |
| Other Barley | 1.69 | 2.87 | 2.29 | 1.80 | 1.88 |

TOTAL VALUE (CUSTOMS) CANADIAN IMPORTS

| | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|
| Malting Barley | $9.482.000 | $40.308.000 | $32.314.000 | $36.545.000 | $28.156.000 |
| Other Barley | $15.229.000 | $3.505.000 | $1.356.000 | $7.941.000 | $14.877.000 |

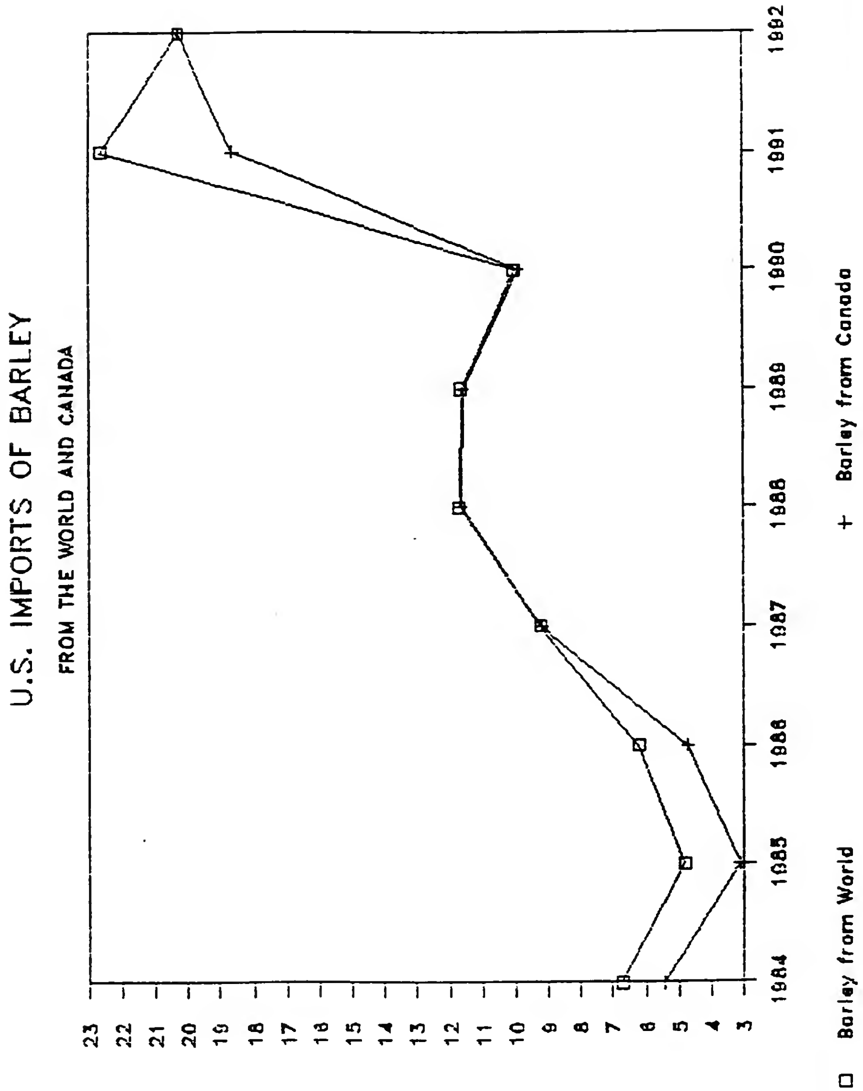
U.S. BARLEY AND CO-PRODUCT IMPORTS FROM THE WORLD AND CANADA, CALENDAR YEARS 1984-1992

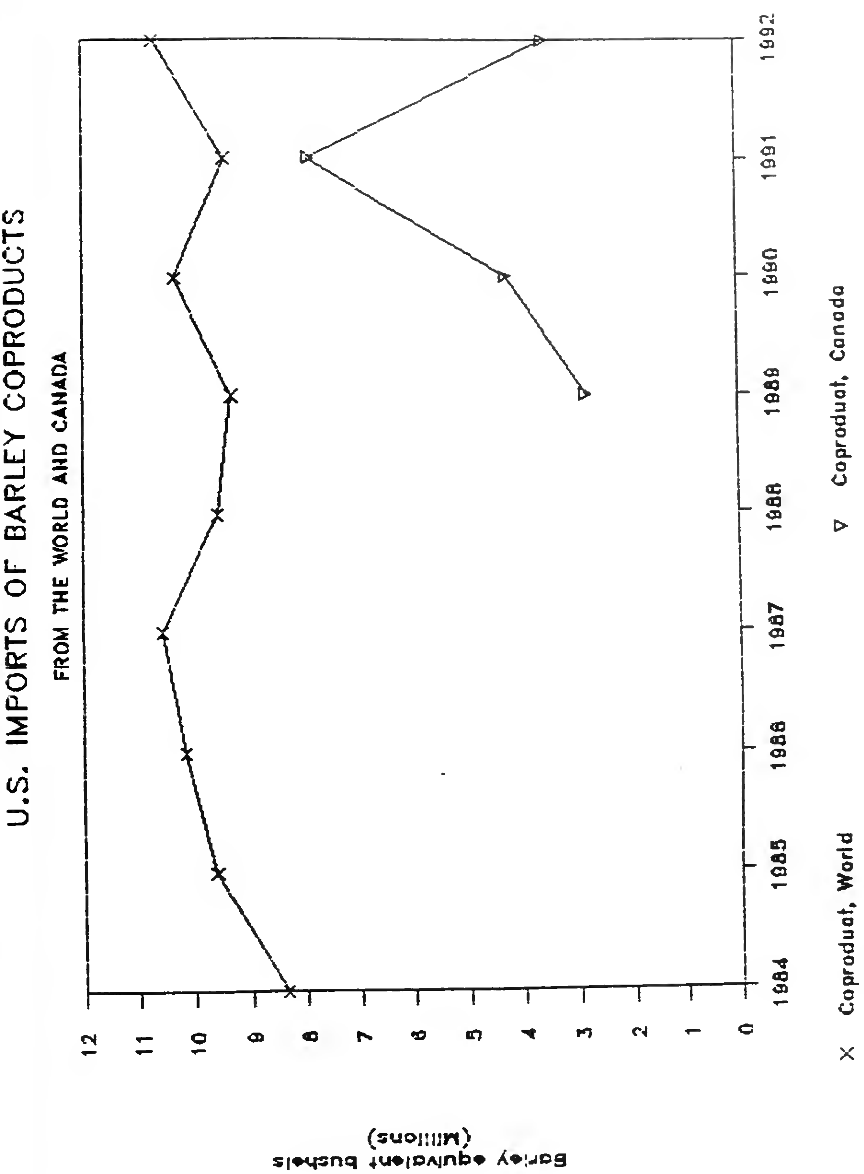
| Item | Unit of Measurement | Origin | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Barley | Bushels | World | 6,693,049 | 4,820,406 | 6,216,070 | 9,237,458 | 11,691,477 | 11,651,623 | 10,003,814 | 22,626,116 | 20,255,556 |
| | | Canada | 5,410,031 | 3,116,555 | 4,720,004 | 9,190,656 | 11,635,765 | 11,586,075 | 9,910,302 | 18,623,552 | 20,240,171 |
| | | % Canada | 80.84 | 64.65 | 75.93 | 99.49 | 99.52 | 99.44 | 99.07 | 82.31 | 99.92 |
| Malt | Bushels | World | 2,036,811 | 2,762,535 | 2,539,919 | 2,459,645 | 1,323,616 | 982,097 | 1,457,465 | 1,154,731 | 638,720 |
| | | Canada | | | | | | 915,617 | 1,265,747 | 968,814 | 457,223 |
| | | % Canada | | | | | | 93.23 | 86.85 | 83.90 | 71.58 |
| Malt Beverages | Barrels | World | 7,203,914 | 7,916,819 | 8,838,768 | 9,363,943 | 9,355,676 | 8,599,367 | 8,847,369 | 7,930,275 | 8,324,596 |
| | | Canada | 1,969,740 | 1,927,694 | 1,978,526 | 2,014,867 | 2,043,610 | 2,155,003 | 2,081,012 | 2,050,111 | 2,111,311 |
| | | % Canada | 27.34 | 24.35 | 22.38 | 21.52 | 21.84 | 25.06 | 23.52 | 25.85 | 25.36 |
| Other Barley Co-Products* | Barley Bushel Equivalency | World | 260,298 | 231,586 | 166,468 | 201,606 | 243,696 | 965,954 | 1,324,344 | 1,488,953 | 2,905,457 |
| | | Canada | | | | | | 134,963 | 166,468 | 152,902 | 1,319,525 |
| | | % Canada | | | | | | 13.97 | 12.57 | 10.27 | 45.42 |
| Total** | Barley Bushel Equivalency | World | 15,055,826 | 14,428,873 | 16,361,362 | 19,798,312 | 21,243,126 | 20,957,529 | 20,319,517 | 32,035,018 | 30,947,721 |
| | | Canada | | | | | | 14,427,183 | 14,197,810 | 26,525,524 | 23,805,935 |
| | | % Canada | | | | | | 68.84 | 69.87 | 81.55 | 76.92 |

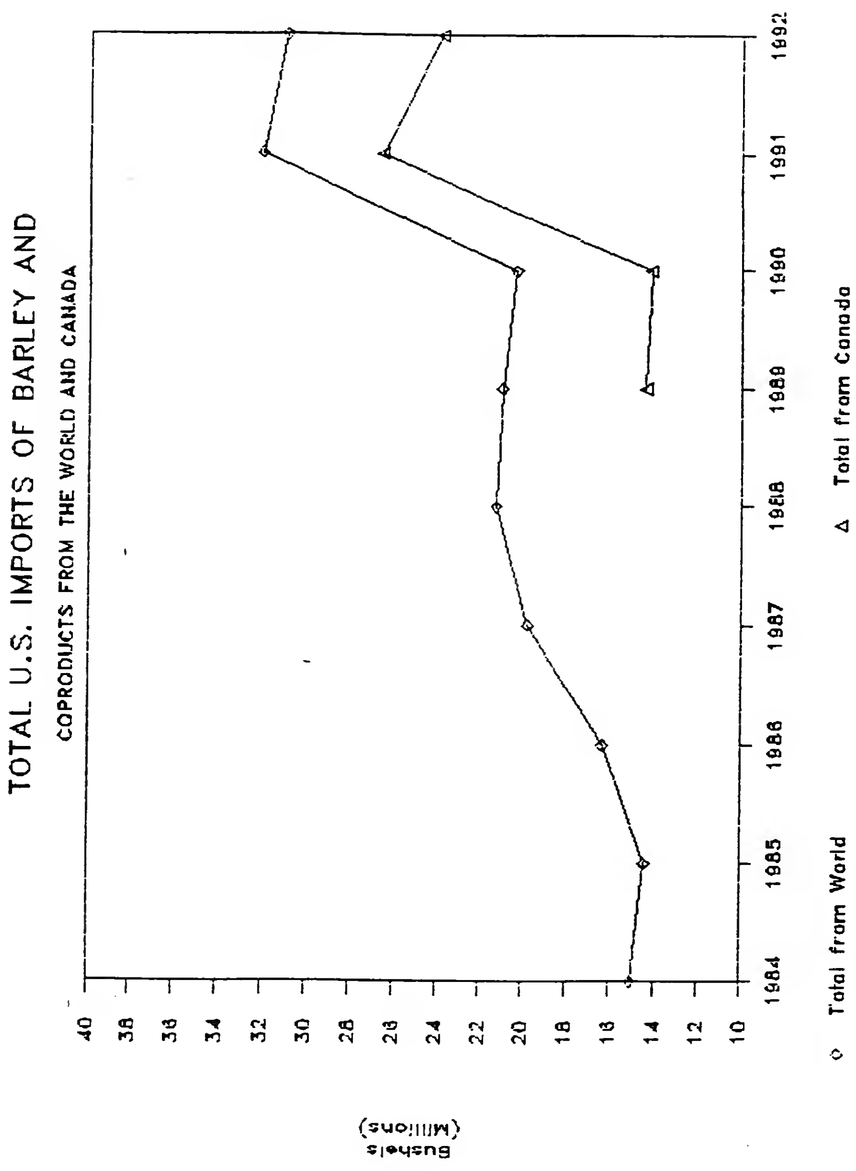
* Includes malt extracts and other processed products for food or feed use.

** Conversion factors for barley equivalency:
- Bushels of malt/1.088 = Bushels of barley
- Barrels of malt beverages/1.15625 = Bushels of barley
- Pounds of malt extract * 0.0146291 = Bushels of barley
- Pounds of pearled, milled, etc. * 0.03448 = Bushels of barley

SOURCE: U.S. Department of Commerce, Bureau of the Census, U.S. Merchandise Import Trade, 1989 through 1992 data.
U.S. Department of Agriculture, ERS, Foreign Agricultural Trade of the United States, various issues, 1984 through 1988 data.


U.S. IMPORTS OF BARLEY
FROM THE WORLD AND CANADA
23
22
21
20
19
18
17
16
15
14
13
12
11
10
9
8
7
6
5
4
3
1984
1985
1986
1987
1988
1989
1990
1991
1992
Barley from World
Barley from Canada


U.S. IMPORTS OF BARLEY COPRODUCTS
FROM THE WORLD AND CANADA
Barley equivalent bushels (Millions)
0
1
2
3
4
5
6
7
8
9
10
11
12
1984
1985
1986
1987
1988
1989
1990
1991
1992
Copraduat, World
Copraduat, Canada


TOTAL U.S. IMPORTS OF BARLEY AND
COPRODUCTS FROM THE WORLD AND CANADA
Bushels
(Millions)
40
38
36
34
32
30
28
26
24
22
20
18
16
14
12
10
1984
1985
1986
1987
1988
1989
1990
1991
1992
◇ Total from World
△ Total from Canada

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1. Carter, Colin A., March 31, 1993. An Economic Analysis of A Single North American Barley Market. Report to Associate Deputy Minister, Grains and Oilseeds Branch, Agriculture Canada.

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4. U.S. Department of Agriculture. Various Reports.

**Statement of Neal Fisher**
**Deputy Administrator, North Dakota Wheat Commission**
**Bismarck, North Dakota**

**Impact of Imported Grains**
**on U.S. Wheat and Durum Producers**

Good morning Mr. Chairman and members of the committee. I am pleased to have this opportunity to appear before the subcommittee and to testify on this subject, which has become increasingly important to U.S. wheat producers.

The North Dakota Wheat Commission, which represents some 35,000 wheat producers in North Dakota, has repeatedly expressed strong concerns about the steadily increasing influx of foreign wheats and other grains. Most of these imports originate in Canada, and the situation has steadily worsened with the implementation of the U.S.-Canada Free Trade Agreement.

The movement of Canadian-produced wheat and durum to U.S. processing centers has increased dramatically in recent years, to the detriment of our own U.S. wheat and durum producers. In the current 1992-93 marketing year, USDA estimates 68 million bushels of wheat and durum will be imported. In the first 10 months of the marketing year (June-April) 50.3 million bushels of Canadian wheat and durum have already moved to U.S. destinations. Estimates for the recently begun 1993-94 marketing year suggest imports of 75 million bushels over the next 12 months.

Many key policymakers in Washington remain unaware of the seriousness of this situation. This fact is particularly troublesome when many of these same individuals and government agencies are pushing the adoption of a North American Free Trade Agreement (NAFTA), which does little to correct any of the existing problems associated with U.S.-Canadian trade. Imports of Canadian wheat and durum are increasing rapidly, but to some, the current import level seems relatively insignificant in the scope of the total U.S. wheat industry. Under such a casual observation, the dramatic impact on the U.S. durum situation is missed entirely.

Durum imports will reach an estimated 26 million bushels in the current marketing year. The vast majority of these imports -- which will account for 29 percent of this year's total domestic usage of durum -- originate in Canada. This year's import volume is the equivalent of 27 percent of U.S. durum production, but it also negates 58 percent of this year's export sales of U.S. durum.

The impact on producer prices and incomes from this invasion is obvious. There is not a domestic processor or manufacturer of any product in this country that would not protest at the highest levels if its market share was intruded upon in such a drastic manner over such a short period. Next year durum imports are expected to reach 30 million bushels, further eroding U.S. durum producers' share of their own domestic market. Just six years ago, durum imports into this country were virtually nonexistent.

This rapidly worsening situation obviously has serious consequences for U.S. durum producers. Durum wheat has but one single and very specific end-use, that of pasta production. Durum is not interchangeable with other wheats commonly used for bread production. With these specifically defined end uses, significant imports from any source constitute serious and absolute displacement.

U.S. durum producers have become increasingly frustrated with these developments. Prices have eroded and their enthusiasm for producing durum has declined accordingly. This trend threatens the very survival of the industry. Approximately 85 percent of the total U.S. durum crop is produced in North Dakota. Although few crop alternatives exist in this region, U.S. durum acreage and production has declined dramatically in recent years.

Durum plantings reached nearly 6.0 million acres in 1981, but have steadily declined in recent years to a low of 2.1 million acres this year. Ironically, the U.S. pasta industry is growing rapidly. Normally that should imply considerable strength in the durum market and prosperity for U.S. durum producers. That is not the case, due largely to growing imports of Canadian durum.

U.S. durum traditionally trades at a significant premium to other wheats, due to the added risks of production and marketing of this specialty wheat. For the past two seasons, durum has instead traded at a 25 to 30 cent discount to other wheats.

This year's reduced production outlook and much tighter supply and demand situation has not had the expected effect on durum prices in contrast to similar occurrences in the past. New-crop bids currently reflect a slight premium to hard red spring wheat, which competes for acreage with durum in the primary production region. The import situation has so clouded the outlook that producers have not responded with increased plantings. They have opted instead to plant spring wheat, which carries less risk with regard to end-use quality factors during production and harvest.

Mr. Chairman, my written testimony contains attachments which depict an increase in durum acreage in Canada; the contrasting shift in plantings from durum to spring wheat in the United States; the rapidly increasing movement of Canadian durum and non-durum wheats to U.S. destinations; and the individual supply and demand situations for U.S. wheat, hard red spring wheat and durum. These charts document the dramatic increase in durum imports, but also describe the significant increase in imports of non-durum wheats that have also occurred in recent years.

The CWB has obviously targeted the U.S. market as a viable cash market for Canadian wheat and durum and is willing to employ any or all subsidies and other marketing strategies that have been routinely used to access other lucrative offshore markets. The U.S. government must challenge these practices.

U.S. producers were apprehensive at best when the U.S.-Canada FTA was negotiated, but were routinely told that many of the obvious flaws would be corrected in the GATT negotiations or possibly in the negotiation of a broader North American Free Trade Agreement (NAFTA). Their apprehension has now become bitter disappointment as the flaws in the FTA continue to haunt U.S. producers. Furthermore, there is no evidence whatsoever that the current NAFTA text or the Dunkel text of GATT do anything to alleviate these serious problems. The weak attempts at so-called side agreements are directed almost entirely at labor and environmental issues. The side agreements do not directly mention agriculture, let alone wheat or durum producers' concerns.

It is well known that the CWB maintains a single desk monopoly in the marketing of Canadian wheat. Under CWB control, pricing of Canadian wheat for export remains highly secretive and there is no concept of price transparency. The CWB routinely observes the contrastingly open price discovery process of the U.S. marketing system and then offers its own discounted prices to prospective customers. There is documentation of these practices on file in U.S. Wheat Associates offices at various locations around the world. This selective price negotiating authority gives the CWB distinct price advantages over the U.S. producer in capturing prospective sales in Mexico, other offshore markets, and even in the U.S. market -- a situation that is certainly injurious to U.S. producers.

The Canadian government also pays transportation subsidies that benefit Canadian wheat and grain producers. These rail subsidies provide a comparative advantage to the CWB in accessing export markets, including the United States, Mexico, Venezuela and a host of other markets. These freight-rate advantages allow Canadian wheat to move to market with less economic burden on the Canadian producer than that borne by his U.S. counterpart. To make matters worse, these freight subsidies were erroneously labeled as domestic subsidies under the U.S.-Canada Free Trade Agreement (FTA). However, when used to position wheat at export terminals such as Thunder Bay for eventual shipment to the United States, they without a doubt become an export subsidy.

Canadian producers pay C$8.78 per ton (C$.24 per bushel) to ship wheat and durum by rail from the Canadian prairies eastbound to Thunder Bay on the Great Lakes. This is often the routing by which Canadian wheats begin their move toward various U.S. destinations, easily accessible via the Great Lakes or by adjacent rail systems. These freight charges represent approximately one-third of actual freight costs in the Canadian system with the remaining two-thirds paid by the Canadian government under the Western Grain Transportation Act (WGTA).

By comparison, a U.S. producer in North Dakota pays US$22.00 per ton (US$.60 per bushel) to ship wheat and durum eastbound by rail a similar distance for domestic or export consumption. None of this cost is shared by the U.S. government. In effect, Canadian wheat can leave the bins of Canadian producers for destinations overseas or in the United States at comparatively lower market prices while maintaining the price to the producer.

There is a serious threat that the gross inequities created by the lack of price transparency in CWB marketing practices and Canadian rail subsidies will be grandfathered into perpetuity through the NAFTA text that is currently under consideration. U.S. wheat producers cannot accept or support NAFTA under these circumstances, despite the potential for expanded export market possibilities in Mexico. Under current conditions, the CWB has captured more than 75 percent of the Mexican market. Yet, the Canadian challenge to traditional U.S. market share in Mexico goes unanswered. Mexico remains ineligible for a U.S. export enhancement program (EEP) authorization while CWB pricing and delivery schemes in the Mexican market continue to defy logic and geography. Canadian landed prices are consistently less than U.S. offers for similar wheat shipped from Gulf of Mexico ports.

The negative effects of increased imports and the unfair trading practices of the CWB in third country markets are serious in their own right. However, the negative implications go beyond threats to production and profitability of the U.S. wheat industry. The net effect of unlimited imports is the virtual gutting of U.S. farm programs. In the area of price support, the potential benefits of set-aside provisions of present and future U.S. farm legislation are severely limited if not eliminated, by the seemingly endless supply of foreign-produced grains. Canada produces larger quantities of both durum and spring wheat than the United States does and has a much smaller population and domestic consumption base.

Increased imports also threaten the sanctity and effectiveness of U.S. export programs. U.S. and foreign grains can potentially be commingled in the U.S. grain handling system. Export programs aimed at maintaining U.S. market shares abroad have been the lifeblood of U.S. exports in recent years. Without programs such as EEP, GSM-102 or GSM-103 and the PL-480 program, U.S. wheat and grain exports would be a mere fraction of what is anticipated in this marketing year.

Provisions of the 1990 Farm Bill state that only commodities produced entirely in the United States are considered eligible for participation in U.S. government assisted export programs. U.S. exporters must certify that all grains exported under such provisions are of U.S. origin to rightfully assure that U.S. taxpayer funds are not used to export foreign origin grains through U.S. ports, thus undermining program intent.

The need for monitoring the flow and usage of imported grains has increased with the incidence of foreign grain imports. One concept in monitoring and certifying this information is the end-use certificate legislation proposed in Congress during the last session. Under provisions of this system the importer of record would be required to detail: the end-use of the grain, either for feed or milling; the assignee and destination of the grain; the quantity and quality of the grain imported; and the mode of transportation designated for delivering the grain. Once the grain had been milled or consumed, the importer or assignee would report that information.

The country of Canada currently employs a system of very stringent end-use certification procedures for foreign (U.S.) grains entering Canada. The Canadian government lists as primary among its reasons for this end-use certification process, the need to maintain the integrity of its production and marketing system. It therefore seems logical, given the importance of exports and U.S. export programs to U.S. wheat producers and the national economy, that the U.S. government should expect no less in assuring the sanctity of its own domestic and export programs. The U.S. should implement such a program to monitor and certify the flow and use of imported grains.

The authorization of Mexico as a participant in EEP would also constitute a major step toward enabling U.S. wheat producers to effectively compete in that market. The export subsidies and monopolistic pricing practices of the world's wheat marketing boards have gone unchallenged for far too long. The CWB has employed its own version of export subsidies for many years and has recently expanded that effort into the Mexican market, capturing most of what has been a traditional U.S. export market. By not using EEP in Mexico, the United States has literally handed a major growth market to the CWB.

The bi-national dispute panel process proved to be a great disappointment to U.S. durum and wheat producers, but it did expose the gross inequities that were negotiated in the U.S.-Canada FTA. If left unaddressed, CWB subsidies pose a continued serious threat to U.S. producers' market share in the U.S. domestic market and to other growth markets in Mexico, Latin America, Africa, Europe and Asia. The scope of EEP should be expanded as part of a broader strategy to address this situation.

Thank you again, Mr. Chairman, for this opportunity to air our concerns over these important trade matters. If you have any questions I will be happy to try to clarify any of my remarks or address any topics that may have been overlooked.

## SHIPMENTS OF CANADIAN WHEAT TO THE UNITED STATES

| Marketing Year | ALL WHEAT 000 MT | ALL WHEAT Mil. Bu. | DURUM 000 MT | DURUM Mil. Bu. | SPRING 000 MT | SPRING Mil. Bu. |
|---|---|---|---|---|---|---|
| (June-May) | | | | | | |
| 1982-83 | 126.9 | 4.7 | 0.0 | 0.0 | 126.9 | 4.7 |
| 1983-84 | 62.5 | 2.3 | 2.6 | 0.1 | 59.9 | 2.2 |
| 1984-85 | 235.4 | 8.6 | 0.0 | 0.0 | 235.4 | 8.6 |
| 1985-86 | 317.5 | 11.7 | 0.0 | 0.0 | 317.5 | 11.7 |
| 1986-87 | 477.2 | 17.5 | 58.8 | 2.2 | 418.4 | 15.4 |
| 1987-88 | 298.8 | 11.0 | 163.8 | 6.0 | 135.0 | 5.0 |
| 1988-89 | 366.2 | 13.5 | 208 | 7.6 | 158.2 | 5.8 |
| 1989-90 | 303.7 | 11.2 | 165.3 | 6.1 | 138.4 | 5.1 |
| 1990-91 | 609.6 | 22.4 | 310.6 | 11.4 | 299.0 | 11.0 |
| 1991-92 | 839.0 | 30.8 | 375.2 | 13.8 | 463.8 | 17.0 |
| (June-Apr.) 1992-93 | 1370.2 | 50.3 | 421.9 | 15.5 | 948.3 | 34.8 |

Source: Canadian Grain Commission

NDWC 6/3/93
NF229

## CANADIAN SHIPMENTS OF DURUM TO THE UNITED STATES
### U.S. Marketing Years - Monthly
### (000 Tons and Million Bushels)

| | 1986-87 Tons | 1986-87 Bu. | 1987-88 Tons | 1987-88 Bu. | 1988-89 Tons | 1988-89 Bu. | 1989-90 Tons | 1989-90 Bu. | 1990-91 Tons | 1990-91 Bu. | 1991-92 Tons | 1991-92 Bu. | 1992-93 Tons | 1992-93 Bu. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| June | 0 | | 0.2 | | 18.7 | (0.7) | 2.0 | (0.1) | 9.9 | (0.4) | 32.8 | (1.2) | 50.3 | (1.8) |
| July | 0 | | 1.7 | (0.3) | 29.4 | (1.1) | 14.7 | (0.5) | 18.5 | (0.7) | 18.8 | (0.7) | 41.7 | (1.5) |
| August | 0 | | 13.2 | (0.5) | 27.7 | (1.0) | 18.7 | (0.7) | 9.0 | (0.3) | 24.4 | (0.9) | 58.8 | (1.9) |
| September | 0 | | 10.3 | (0.4) | 13.9 | (0.5) | 15.4 | (0.6) | 23.9 | (0.9) | 7.5 | (0.3) | 35.2 | (1.3) |
| October | 0 | | 21.9 | (0.8) | 28.2 | (1.0) | 13.1 | (0.5) | 33.0 | (1.2) | 32.2 | (1.2) | 39.6 | (1.5) |
| November | 6.5 | (0.2) | 17.3 | (0.7) | 13.9 | (0.5) | 26.6 | (1.0) | 38.8 | (1.4) | 30.9 | (1.1) | 37.1 | (1.4) |
| December | 6.8 | (0.3) | 25.4 | (0.9) | 13.5 | (0.5) | 25.5 | (0.9) | 32.0 | (1.2) | 42.6 | (1.6) | 62 | (1.7) |
| January | 5 | (0.2) | 13.1 | (0.5) | 10.8 | (0.4) | 5.4 | (0.2) | 57.4 | (2.1) | 31.1 | (1.1) | 18.2 | (0.7) |
| February | 4.7 | (0.2) | 14.9 | (0.5) | 11.4 | (0.4) | 4.9 | (0.2) | 8.4 | (0.3) | 24.8 | (0.9) | 26.7 | (1.0) |
| March | 13.7 | (0.5) | 21.6 | (0.8) | 12.1 | (0.4) | 1.3 | (0.1) | 25.9 | (0.9) | 25.6 | (0.9) | 22.5 | (0.8) |
| April | 11.9 | (0.4) | 9.9 | (0.4) | 24.2 | (0.9) | 9.9 | (0.4) | 17.0 | (0.6) | 60.7 | (2.2) | 37.8 | (1.4) |
| May | 10.2 | (0.4) | 8.9 | (0.3) | 4.2 | (0.2) | 27.8 | (1.0) | 32.8 | (1.2) | 43.8 | (1.6) | | |
| Total | 58.8 | (2.2) | 163. | (0.6) | 208.0 | (7.6) | 165. | (6.1) | 310. | (11.4) | 375. | (13.8) | | |

NDWC 6/3/93
NF235

NDWC 6/7/93
NF261

CANADIAN IMPORTS
(Metric Tons)

| | Nov. 92 | Dec. 92 | Jan. 93 | Feb. 93 | Mar. 93 | Jan.-Mar. 93 | Cumulative Jun.-Mar.93 |
|---|---|---|---|---|---|---|---|
| **#1 Red Spring** | | | | | | | |
| Pembina | 2,634 | 2,974 | 211 | 179 | 4,096 | 4,486 | 37,383 |
| Duluth | 2,307 | 4,581 | ----- | 151 | 151 | 151 | 7,309 |
| Cleveland | 2,585 | ----- | ----- | ----- | ----- | ----- | 2,585 |
| Great Falls | ----- | ----- | ----- | ----- | 35 | 35 | 35 |
| Total | 5,489 | 7,555 | 211 | 330 | 4,131 | 4,672 | 47,312 |
| **Other Red Spring** | | | | | | | |
| Duluth | 10,952 | 12,370 | 90 | 5,085 | 173 | 5,348 | 125,567 |
| Pembina | 6,465 | 6,529 | 10,042 | 18,729 | 28,251 | 57,022 | 111,495 |
| Buffalo | ----- | ----- | ----- | 1,851 | ----- | 1,851 | 45,569 |
| Seattle | 483 | 860 | 1,629 | 1,177 | 657 | 3,463 | 4,824 |
| Cleveland | ----- | ----- | ----- | ----- | ----- | ----- | 2,700 |
| Great Falls | 1,502 | 4,534 | 299 | 89 | ----- | 388 | 6,424 |
| Total | 19,402 | 24,293 | 12,060 | 26,931 | 29,081 | 68,072 | 296,579 |
| **Durum** | | | | | | | |
| St. Albans | 4,885 | 4,913 | 4,832 | 4,425 | ----- | 9,257 | 19,055 |
| Ogdensburg | ----- | ----- | ----- | ----- | ----- | ----- | 24 |
| Buffalo | ----- | ----- | ----- | ----- | 4,496 | 4,496 | 23,946 |
| Detroit | ----- | ----- | ----- | ----- | ----- | ----- | 89 |
| Cleveland | 13,375 | 37,716 | ----- | ----- | ----- | ----- | 144,531 |
| Duluth | 16,331 | 9,634 | 13,731 | 31,572 | 37,588 | 82,891 | 166,775 |
| Pembina | 9,246 | 2,318 | 90 | 279 | 34 | 403 | 49,152 |
| Great Falls | 2,797 | 1,934 | 3,365 | 3,605 | 400 | 7,370 | 29,831 |
| Total | 46,634 | 56,515 | 22,018 | 39,881 | 42,518 | 104,417 | 433,403 |

| | Nov. 92 | Dec. 92 | Jan. 93 | Feb. 93 | Mar. 93 | Jan.-Mar. 93 | Cumulative Jun.-Mar.93 |
|---|---|---|---|---|---|---|---|
| **White Winter** | | | | | | | |
| Ogdensburg | ---- | ---- | ---- | ---- | ---- | ---- | ---- |
| Buffalo | 1,273 | 655 | 3,015 | 1,287 | 2,112 | 6,414 | 71,311 |
| Detroit | 1,967 | 1,436 | ---- | 4,308 | 8,423 | 12,731 | 55,790 |
| Pembina | ---- | 24 | 122 | ---- | ---- | 122 | 2,301 |
| St. Albns | ---- | ---- | ---- | ---- | 30 | 30 | 30 |
| Cleveland | ---- | ---- | ---- | ---- | ---- | --- | 17,000 |
| Great Falls | ---- | ---- | 56 | 20 | ---- | 76 | 76 |
| Total | 3,240 | 2,115 | 3,193 | 5,615 | 10,565 | 19,373 | 146,508 |
| **Other** | | | | | | | |
| Ogdensburg | ---- | ---- | ---- | ---- | ---- | ---- | 65 |
| Buffalo | 1,995 | 19,779 | 2,897 | 3,004 | 4,055 | 9,956 | 138,097 |
| Detroit | 650 | 19 | 1,232 | 1,773 | ---- | 3,005 | 21,995 |
| Duluth | 329 | 41,705 | 28,803 | 1,935 | 7,218 | 37,956 | 80,415 |
| Pembina | 715 | 1,079 | 3,562 | 5,585 | 4,222 | 13,369 | 27,247 |
| Great Falls | 15,340 | 17,623 | 26,528 | 42,542 | 32,618 | 101,688 | 151,377 |
| Seattle | 109 | 90 | 219 | 207 | 590 | 1,016 | 1,557 |
| St. Albans | ---- | ---- | ---- | 230 | 326 | 556 | 556 |
| Chicago | 104 | ---- | ---- | ---- | ---- | ---- | 104 |
| Total | 19,242 | 80,295 | 63,241 | 55,276 | 49,029 | 167,546 | 421,413 |
| **Durum Seed** | | | | | | | |
| Great Falls | ---- | ---- | ---- | 129 | ---- | 129 | 149 |
| Pembina | ---- | ---- | 83 | 11 | 172 | 266 | 266 |
| Duluth | ---- | ---- | ---- | ---- | ---- | ---- | ---- |
| Total | 0 | 0 | 83 | 140 | 172 | 395 | 415 |
| **Other Wheat Seed** | | | | | | | |
| Buffalo | ---- | ---- | ---- | ---- | ---- | ---- | 149 |
| Pembina | ---- | 499 | 192 | 392 | 389 | 973 | 1,835 |
| Great Falls | ---- | ---- | ---- | 86 | 49 | 135 | 162 |
| Detroit | ---- | ---- | ---- | ---- | ---- | ---- | 528 |
| Total | 0 | 499 | 192 | 478 | 438 | 1,108 | 2,674 |
| **ALL WHEAT** Total | 94,007 | 171,272 | 100,998 | 126,651 | 135,934 | 365,583 | 1,348,304 |

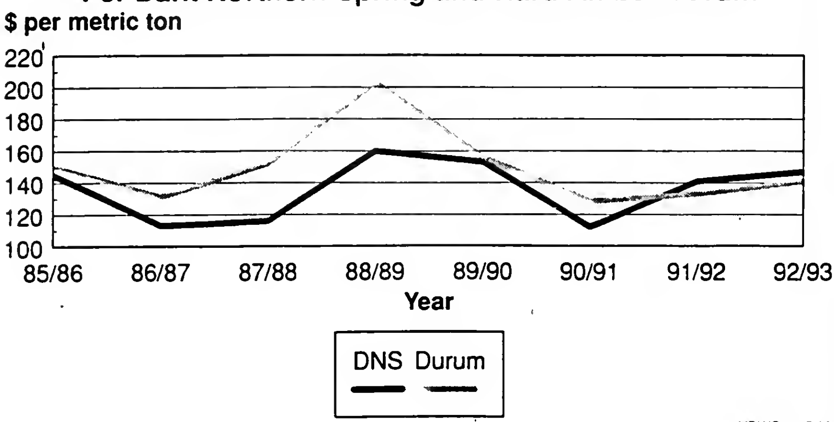
## CANADIAN DURUM PRODUCTION

| YEAR | ACREAGE (Million Acres) | YIELD (Bu./Acre) | PRODUCTION (Million Bu.) |
|---|---|---|---|
| 1976 | 3.5 | 30.0 | 105.0 |
| 1977 | 1.8 | 26.1 | 47.0 |
| 1978 | 3.7 | 28.3 | 104.8 |
| 1979 | 2.8 | 23.6 | 66.1 |
| 1980 | 3.3 | 22.7 | 74.8 |
| 1981 | 4.2 | 26.0 | 109.4 |
| 1982 | 3.7 | 31.0 | 114.7 |
| 1983 | 3.5 | 27.5 | 96.3 |
| 1984 | 4.2 | 18.7 | 76.6 |
| 1985 | 4.3 | 16.7 | 71.9 |
| 1986 | 4.6 | 31.4 | 148.7 |
| 1987 | 5.4 | 27.3 | 147.5 |
| 1988 | 5.6 | 12.9 | 73.1 |
| 1989 | 6.5 | 23.3 | 150.6 |
| 1990 | 5.2 | 31.1 | 162.0 |
| 1991 | 4.9 | 33.5 | 164.3 |
| 1992 | 3.7 | 32.0 | 115.3 |
| 10 Year Average | 4.8 | 25.1 | 120.6 |
| 5 Year Average | 5.2 | 25.6 | 133.1 |
| 1993 | 3.6 | 30.0 | 108.0 |

NDWC 6/7/93
NF45

# Minneapolis Cash Prices

## For Dark Northern Spring and Hard Amber Durum




NDWC 1/15/93
NF 42-1

## U.S. DURUM PRODUCTION

| Year | Planted Area (Million Acres) | Harvested Area (Million Acres) | Yield (Bu./Acre) | Production (Mil. Bu.) |
|---|---|---|---|---|
| 1980 | 5.5 | 4.8 | 22.4 | 108.4 |
| 1981 | 5.9 | 5.8 | 32.4 | 183.0 |
| 1982 | 4.2 | 4.2 | 34.9 | 145.9 |
| 1983 | 2.6 | 2.5 | 29.3 | 73.0 |
| 1984 | 3.3 | 3.2 | 32.1 | 103.4 |
| 1985 | 3.2 | 3.1 | 36.4 | 112.5 |
| 1986 | 3.0 | 2.9 | 33.2 | 95.4 |
| 1987 | 3.3 | 3.3 | 28.2 | 92.6 |
| 1988 | 3.3 | 2.9 | 15.7 | 44.8 |
| 1989 | 3.8 | 3.7 | 25.1 | 92.2 |
| 1990 | 3.6 | 3.5 | 34.9 | 122.1 |
| 1991 | 3.4 | 3.2 | 32.5 | 104.0 |
| 1992 | 2.5 | 2.4 | 40.0 | 97.2 |
| 10 Yr. Avg. | 3.6 | 3.5 | 28.2 | 98.6 |
| 5 Yr. Avg. | 3.5 | 3.3 | 27.6 | 91.1 |
| 1993 | 2.2 | 2.1 | 28.0 | 59.0 |

*Early Estimate (Unofficial) for Discussion Only.

NDWC 3/19/93
NF203

## U.S. SPRING WHEAT PRODUCTION

| Year | Planted Area (Million Acres) | Harvested Area (Million Acres) | Yield (Bu./Acre) | Production (Million Tons) All Spring** | Production (Million Tons) HRS |
|---|---|---|---|---|---|
| 1980 | 17.5 | 14.6 | 25.3 | 370.5 | 312.0 |
| 1981 | 17.1 | 16.6 | 30.6 | 505.3 | 464.0 |
| 1982 | 16.4 | 16.1 | 33.8 | 545.5 | 492.0 |
| 1983 | 11.7 | 11.3 | 31.7 | 358.5 | 323.0 |
| 1984 | 12.5 | 12.2 | 35.3 | 431.0 | 409.0 |
| 1985 | 14.6 | 13.7 | 35.4 | 485.1 | 460.0 |
| 1986 | 15.1 | 14.6 | 32.3 | 472.2 | 451.0 |
| 1987 | 13.7 | 13.3 | 33.7 | 449.7 | 431.0 |
| 1988 | 13.4 | 10.5 | 19.5 | 205.5 | 181.0 |
| 1989 | 17.8 | 17.0 | 28.8 | 489.7 | 433.0 |
| 1990 | 16.7 | 15.9 | 36.7 | 583.1 | 555.0 |
| 1991 | 15.6 | 15.1 | 33.4 | 504.6 | 431.0 |
| 1992 | 18.8 | 18.1 | 41.8 | 755.1 | 702.0 |
| 10 Yr. Avg. | 14.8 | 14.0 | 32.3 | 452.5 | 417.0 |
| 5 Yr. Avg. | 15.4 | 14.4 | 31.0 | 446.5 | 406.0 |
| 1993* | 19.0 | 18.2 | 32.0 | 580.0 | 540.0 |

*Early Estimate (Unofficial) For Discussion Only
**Includes all spring wheat other than durum.
(Typically 25-30 Mil. Bu. of white spring wheat)

NDWC 1/27/93
NF202

## U.S. WHEAT SUPPLY AND DEMAND
### (Million Bushels)

| | 90-91 | 91-92 | 92-93 | Est. 93-94* | % Change 92-93/93-94 |
|---|---|---|---|---|---|
| Beginning Stocks | 536 | 866 | 472 | 510 | + 8 |
| Production | 2,736 | 1,981 | 2,459 | 2,508 | + 2 |
| (Imports) | (37) | (41) | (68) | (75) | + 10 |
| Total Supply | 3,309 | 2,888 | 2,999 | 3,093 | + 3 |
| Domestic Use | 1,375 | 1,135 | 1,148 | 1,210 | + 5 |
| Exports | 1,068 | 1,281 | 1,340 | 1,225 | - 9 |
| Total Use | 2,443 | 2,416 | 2,488 | 2,435 | - 2 |
| Ending Stocks | 886 | 472 | 510 | 658 | |
| Stocks/Use Ratio % | 35 | 20 | 21 | 27 | + 29 |
| Projected Average Price | $2.61 | $3.00 | $3.25 | $2.55-2.95 | |

*USDA 5/11/93

NDWC 5/18/93
NF58A

## U.S. WHEAT SUPPLY AND DEMAND
### (Million Bushels)

| | 84-85 | 85-86 | 86-87 | 87-88 | 88-89 | 89-90 | 90-91 | 91-92 | 92-93 | Prelim. NDWC 93-94* | % Change |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Beginning Stocks** | 314 | 371 | 498 | 490 | 402 | 219 | 155 | 277 | 128 | 163 | + 27 |
| **Production** | 409 | 460 | 451 | 431 | 181 | 433 | 555 | 431 | 702 | 540 | - 23 |
| **(Imports)** | (2) | (7) | (7) | (6) | (7) | (7) | (7) | (17) | (32) | 45 | + 41 |
| **Total Supply** | 725 | 838 | 956 | 927 | 590 | 660 | 717 | 725 | 863 | 748 | - 13 |
| **Domestic Use** | 171 | 174 | 266 | 270 | 176 | 225 | 239 | 217 | 269 | 235 | - 11 |
| **Exports** | 183 | 166 | 200 | 255 | 195 | 280 | 201 | 380 | 430 | 330 | - 24 |
| **Total Use** | 354 | 340 | 466 | 525 | 371 | 505 | 440 | 596 | 699 | 565 | - 19 |
| **Ending Stocks** | 371 | 498 | 490 | 402 | 219 | 155 | 277 | 128 | 163 | 183 | + 12 |
| **S/U Ratio %** | 105 | 146 | 105 | 77 | 59 | 31 | 63 | 22 | 23 | 32 | |

*Unofficial Estimates For Discussion Only.

NDWC 5/18/93
NF26A

## U.S. DURUM SUPPLY AND DEMAND
## (Million Bushels)

| | 88-89 | 89-90 | 90-91 | 91-92 | 92-93 | Prelim. NDWC 93-94* | % Change |
|---|---|---|---|---|---|---|---|
| **Beginning Stocks** | 83 | 60 | 50 | 62 | 55 | 44 | - 20 |
| **Production** | 45 | 92 | 122 | 104 | 97 | 65 | - 33 |
| **(Imports)** | (11) | (13) | (19) | (19) | (26) | (30) | + 15 |
| **Total Supply** | 139 | 165 | 191 | 185 | 178 | 139 | - 22 |
| **Domestic Use** | 59 | 60 | 76 | 85 | 89 | 85 | - 4 |
| **Exports** | 20 | 55 | 53 | 45 | 45 | 40 | - 12 |
| **Total Use** | 79 | 115 | 129 | 130 | 134 | 125 | - 7 |
| **Ending Stocks** | 60 | 50 | 62 | 55 | 44 | 14 | - 68 |
| **S/U Ratio %** | 76 | 44 | 48 | 43 | 33 | | |

*Unofficial Estimates For Discussion Only.

NDWC 5/18/93
NF15A

June 11, 1993

Lawson Jones
President, U.S. Durum Growers Association
Rt 2 box 90
Webster, North Dakota 58382

Dear Committee members,

1. Canadian imports of durum wheat can be reduced to zero by raising the wheat marketing loan level to $3.50 per bushel for durum wheat produced on 105 1/2 percent of the producers five year durum acreage history. The U.S. Durum Growers Board of Directors believe this market loan level should also float with the changes in the Producer Subsidy Equivalents of the Canadian Free Trade Agreement. Such a market loan level would impact the budget much the same as the current combination of Export Enhancement Program and deficiency payments. Some transitional EEP may be required however, in the initial phases of the program change.

Our competitors treat each class of wheat differently, we should do likewise. The program we have in place now, is working in reverse quickly for durum. We should be bold, pro-active and seek a refocused direction of change starting with the smallest class of wheat, durum.

2. Canadian durum imports continue to increase and continue to capture domestic market share. The imports continue to dissuade producers from raising durum, the 1993 planting intentions bear that out. Canadian imports have robbed U.S. producers of income opportunities. No longer is the a price premium regularly available to cover the increased risks of producing durum wheat.

3. Area cooperative are struggling. They continue to seek out competitiveness in a highly efficient U.S. grain system. Canadian grain coming into the U.S. places them in a dilemma of providing service to their member patrons and addressing the influx of another countries production. This grain influx only serves to complicate competitiveness goals.

4. End use certificates should be required for imported grain to the U.S. We need to maintain integrity in our food aid and market development export programs with the American people. Also Canada requires end-use-certificates for grain entering their country. Vice versa should be a matter of equality and fairness.

5. The Canadian Wheat Board is an unregulated monopoly. It also has the ability to draw upon the Canadian treasury without representation of the people of Canada. The U.S. government has failed to understand how this type of organization operates and the strategies that are perused. An unregulated monopoly sets goals, not to enter markets with competitiveness in mind, but rather to bolster its existence with those it represents. The monopoly sets goals to cheat the International system of grain trade in anyway it can. Secretive pricing schemes and nonmarket schemes are examples of these goals sought by an unregulated monopoly. These goals of the monopoly are very detrimental to U.S. grain producers as well as the one billion malnourished people of the World.

The World's efficient producers are denied opportunity by heavy subsidizes like Canada. The World's food production abilities are choked down and so is the economy of Canada by these subsidy funding demands. In 90-91 it cost each Canadian citizen over $20 each for Canada to maintain the Canadian Wheat Board secretive pricing schemes. The World should seriously question the trend of increased frequency of Canadian Wheat Board wheat pool deficits and insist on a open traded system.

6. The NAFTA must be renegotiated. It places trade barriers where there were none before. Worse yet it institutionalizes the mistakes of the Canadian Free Trade Agreement. We must have free and fair trade, we must get common sense back as a component of these trade agreements. The U.S. competitive factors of favorable climate, fertile soils, well defined transportation system, aggressive research programs and efficient information dissemenation methods are all negated when common sense is absent among our trade negotiators and agreements.

7. EEP should be used in the Mexican market to attempt to balance the parasitic actions of an out of control unregulated monopoly such as the CWB. It is extremely unfortunate that the State Department continues to "run over" other decision making agencies of the U.S. government such as USDA and USTR. Did State forget the country voted for change in 92?

**Minnesota Association of Wheat Growers**
2600 Wheat Drive • Red Lake Falls, MN 56750
Telephone: 218/253-4311 or 800/242-6118 • FAX 218/253-4320

**Testimony by Noel Kjesbo, President, Minnesota Association of Wheat Growers**
**U.S. House of Representatives Subcommittee on General Farm Commodities**
**Hearing on Canadian grain imports, June 12, 1993, Moorhead, Minn.**

Mr. Chairman, members of the Subcommittee, my name is Noel Kjesbo. I farm near Wendell, Minn., and currently serve as president of the Minnesota Association of Wheat Growers, an organization of about 1,000 wheat growers in Minnesota.

I would like you to imagine, for a moment, how you would feel as a producer seeing a foreign government in the truck line ahead of you selling wheat to your local elevator or your best customer and taking a lower than posted price. Imagine unit trains filled with foreign grain roaring past your own grain bins, headed for customers that should have been yours given a closer market proximity.

Now quit imagining, and meet Canada, the garage-sale wheat exporter. Transportation subsidies, advantages built in through the 1989 U.S.-Canada Free Trade Agreement, secret, manipulative pricing, and the ability to openly review posted U.S. wheat prices at every elevator, port, and board of trade in the United States have given Canada and its Wheat Board a virtual diving board into our domestic and traditional wheat markets.

In the 1982-83 marketing year, 4.7 million bushels of wheat, all classes, were shipped into the United States from Canada, according to the Canadian Grain Commission. That amount has risen to a projected 60 million bushels in the 1992-93 marketing year. USDA projects that in the 1993/94 marketing year, wheat imports from all sources, with the vast majority from Canada, will climb to 75 million bushels. Given the current trend, 100 million bushels of wheat will be shipped annually into the United States by the year 2000. That will about match the amount of wheat Minnesota produces annually.

We believe, although it's difficult to determine, that more grain is coming across U.S. borders than is being reported, given the difficulty of tracking wheat sold through the Canadian Wheat Board and increased direct sales outside typical marketing channels. For example, last fall a police officer stopped a truck and semi-trailer with Canadian plates for a traffic violation in Hallock, Minn., which is about 20 miles from the Canadian border. The officer asked what the driver was hauling. The truck driver said the cargo was fertilizer. The officer inspected the cargo, however, and found wheat. The truck was turned back to the border and fined.

Canadian imports add to our annual carryover, a major determinant of our price, and threaten to undermine the integrity of our domestic support programs. Even though wheat prices are low in the United States, our prices nevertheless are more attractive to Canadian producers who want more freedom to sell into U.S. markets. Unless the Canadian situation is addressed, U.S. wheat may very well enter the same quagmire which mires oats in the United States. That is, a low farm price caused in part by imports discourages domestic production, and imports keep increasing to fill the void of shrinking domestic production.

Aside from the U.S. market, the Canadian Wheat Board as a monopoly uses freight subsidies and Internal pricing practices to deliver wheat to Mexico, countries in Latin America and South America, and other markets at prices below U.S. offers. For example, the United States traditionally has held about 65 percent of the Mexican wheat import market. However, the U.S. marketshare in Mexico dropped close to 25 percent in the 1991-92 marketing year, while Canada captured about 75 percent of the Mexican market. This past marketing year, fewer bushels of high protein milling wheat to sell prompted the Canadians to back away from swaying credit-based customers with undercutting prices, and instead concentrated their marketing efforts on cash-paying customers. The U.S. regained some credit business including that of Mexico as a result. However, more normal crop conditions this year will allow the Canadian Wheat Board to step up its free-wheeling pricing ways.

Canadian government rail subsidies under the Western Grain Transportation Act amount to 50 cents per bushel, or about $20 per ton. Globally, this contributes to unfair competition that translates into lost marketshare for U.S. wheat growers. Each one percent drop in global wheat marketshare equals about a 10-cent drop in our domestic wheat price, according to a USDA source. Thus, a 10 to 15 percent loss of our market share equals a $1.20 to $1.50 loss in price.

It stands to reason that the ever-present profit motive offers little reason for large U.S. grain companies, shippers, wheat users, and even our local country elevators to complain about the availability of cheaper Canadian grain. However, we producers can identify with the same hurt and economic pinch felt by our endangered small-town merchants that watch helplessly as their business is enticed away by shopping malls in larger cities.

The Minnesota Association of Wheat Growers offers the following points to consider in addressing the Canadian problem:

1. Target the Export Enhancement Program to include traditional U.S. markets, such as Mexico and Venezuela, that have been whittled by Canada. Included in our written testimony is page 501 of the 1990 Farm Bill text, which refers to answering unfair trade practices. Language under Title III, Sections 302a and 302c, says that, (quote) "The Secretary shall carry out EEP to discourage unfair trade practices by foreign countries and to encourage the development, maintenance, and expansion of U.S. export markets. Export incentives shall be made to the extent necessary to counter or offset the adverse effect of unfair trading practices. Priority should be given to sales in traditional markets for U.S. commodities." (unquote) We would appreciate it if this language was passed along to our uncooperative friends in the U.S. State Department.

2. Implement an end-use certificate on grain entering the United States from Canada to prevent the commingling of grain and protect the integrity of U.S. export programs.

3. Seek an end to Canada's use of the Western Grain Transportation Act. Recently, the Canadian Government has proposed shifting its payment of transportation subsidies , the so-called "Crow's Nest" grain rates, from railways to Canadian producers. However, this would not resolve outstanding U.S.-Canada trade issues. The transportation subsidy must be ended, not shifted.

4. Oppose the North American Free Trade Agreement, or seek a side agreement to address the concerns U.S. wheat growers have with Canadian trading practices and the U.S.-Canada Free Trade Agreement.

5. Implement a federal study on the feasibility of incorporating Canada's Gross Revenue Insurance Program (GRIP) or a similar program in the United States. Such means may put the U.S. producer on more equal footing with advantages put forth to producers by the Canadian Government.

6. Actively pursue consultations with Canada to establish equitable grain trade policy. A satisfactory resolution to the price-setting policies of the Canadian Wheat Board and the use of eastbound transportation subsidies must be the product of these talks. A provision was made for both sets of consultations in the implementing legislation and the statement of administrative action for the U.S.-Canada Free Trade Agreement: Neither has occurred.

7. Seek action to end the injury incurred by U.S. wheat growers resulting from unfair Canadian pricing and subsidies. Action might include a countervailing duty based on the case of grain dumping, or pursuing Section 22 proceedings. The U.S. Government must not be bound by the definition of subsidies by the faulted binational durum dispute panel decision made earlier this year.

8. Should any or all of the previously-mentioned measures not be implemented or prove to be inadequate, then the Minnesota Association of Wheat Growers urges the repeal of the U.S.-Canada Free Trade Agreement.

Many of the points outlined today are not new. U.S. wheat and barley growers have been raising concerns about mounting Canadian grain imports and calling for action on trade inequities since the U.S.-Canada Free Trade Agreement was enacted. However, what is new is an administration that is willing to hear our story. Northern Plains lawmakers have done an excellent job over the years of billboarding the Canadian grain issue on Capitol Hill. It's very encouraging for those of us in the wheat and barley trenches to see that finally, the chance of legislative relief is at hand. It is indeed needed. To be sure, there's not one farmer in this room or in the field as I speak who doesn't question how long he'll be able to continue farming with low prices and rising production costs. We look forward to your working with the administration in resolving our concerns.

(Attachments follow:)

1990 Farm Bill



TITLE III—RESPONSE TO UNFAIR TRADE PRACTICES

*Purpose of authorities*

Section 301 of the 1978 Act states that this title authorizes the Secretary to carry out program to meet the U.S. agricultural trade policies directed at foreign unfair trade practices.

*Export enhancement program to combat unfair trade practices*

Section 302 of the 1978 Act replaces section 1203 of the Agricultural and Food Act of 1981 and section 1127 of the Food Security Act of 1985.

Section 302(a) provides that the Secretary shall carry out a export enhancement program (EEP) to discourage unfair trade practices by foreign countries and to encourage the development, maintenance, and expansion of U.S. export markets.

Section 302(b) authorizes the Secretary to provide agricultural commodities or funds to U.S. exporters, users or processors under this program.

Section 302(c) elaborates the terms and conditions of the export enhancement program. Export incentives shall be made to the extent necessary to counter or offset the adverse effect of unfair foreign trade practices. Such incentives should make U.S. agricultural commodities available at the world market price in the foreign market. Priority should be given to sales in traditional markets for U.S. commodities. The Secretary shall avoid displacement of usual U.S. marketings and take reasonable precautions to prevent the resale or transshipment of the exported commodities. The Secretary shall take action to prevent the domestic users from being placed at a competitive disadvantage compared to foreign purchasers of a agricultural commodities receiving incentives. The cost of freight may be included, and commodities different from those in the transaction may be provided as incentives.

Section 302(d) prohibits the purchase of agricultural commodities solely for use under this program.

Section 302(e) directs the Secretary to carry out this program through the CCC.

Section 302(f) exempts EEP initiatives from the price restrictions normally required of CCC's use of commodities.

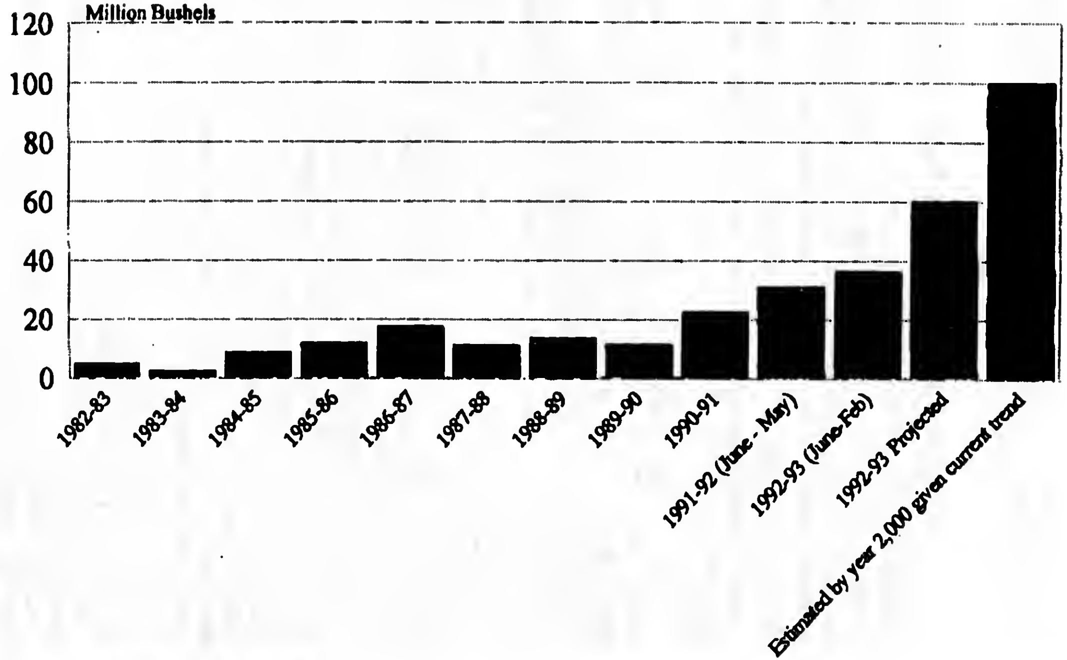
Section 302(g) provides that the authority for this program is in addition to existing authorities.

Section 302(h) requires that the Secretary establish certain administrative procedures for reviewing transactions, bonuses and exporter claims. Participants shall permit the Secretary to have complete access to records related to the assistance during and for 5 years after participation.

Section 302(i) requires the Secretary to make available at least 10 percent of the program incentives for sales of value-added, fortified, or high-value products.

Section 302(j) provides that the Corporation shall make available such incentives as are necessary to carry out the program in years 1991–95.

# Shipments of Canadian Wheat to the U.S.




*Source: Canadian Grain Commission*

Statement
of
Gerald Lacey
Vice President
National Barley Growers Association

President
Minnesota Barley Growers Association

Mr. Chairman, Members of the Committee, I am Gerald Lacey, a barley grower in the Red River Valley near Campbell, Minnesota. I am currently President of the Minnesota Barley Growers Association and Vice President of the National Barley Growers Association (NBGA). NBGA is a grower membership organization including barley producers from Minnesota, North Dakota, Montana, Oregon, Washington and Idaho. This block of six states annually produces 80 to 85% of the total U.S. barley crop.

I would like to base my testimony today on three (3) major points of interest that are of major concern to U.S. barley farmers:

1. Elimination of the 5% malting barley assessment
2. Export Programs
3. Increase in barley costs of production

Each one of the points that I will address today are in some way tied to the problem U.S. barley farmers are facing with the increase of Canadian barley coming into the United States. The problems U.S. barley farmers are facing with the influx of Canadian barley reflect the same concerns that the other affected commodities are experiencing. Simply put, the opportunity to gain a fair profit from the market has been taken away from United States farmers by allowing subsidized grain to enter the United States and erode our marketing opportunities. Not

only is Canada undermining United States exports in the international market but they are stealing the domestic market away from us right under our noses.

**Point #1: 5% Malting Barley Assessment**

The Food, Agriculture, Conservation and Trade act of 1990 instructed the United States Department of Agriculture to place a 5% assessment or tax on malting barley produced on farms that are participating in the production adjustment program. To Minnesota, North Dakota and South Dakota farmers that tax amounted to approximately 10 cents per bushel or $5.00 per acre. This tax is deducted automatically from barley producers final deficiency payment. This tax has proven to be not only a pain in the side for barley producers but also an administrative nightmare for the Agriculture Stabilization and Conservation Service (ASCS).

When the spread between malting barley prices and feed barley prices is less than 10 cents, farmers are forced to sell their malting barley into the feed market for economic reasons. This 5% tax has shifted sales of malting barley into the feed channels and lowered the price of feed barley. The net effect is increased government deficiency payments which negate the income the government receives from the imposed tax. (Mr. Chairman,

Testimony
Gerald Lacey
June 12, 1993

I respectively request that this detailed critique of the malting barley assessment be made part of the record).

What does the 5% malting barley assessment have to do with Canadian barley imports into the United States? Canadian malting barley is not subject to the 5% malting barley assessment. Not only do U.S. barley farmers have to compete against subsidized Canadian freight rates but we also get penalized 10 cents per bushel to sell into our own market. If we continue down this road of madness we will in effect turn our malting barley market over to the Canadian government.

In summary, we offer the following points:

1. The Assessment program is not cost effective.
2. The Assessment program is difficult to administer.
3. The Assessment program has upset normal market and trade practices.
4. The Assessment program gives the Canadian government and unfair trade advantage over U.S. barley farmers. This will make it impossible for us to support the North American Free Trade Agreement because Canadian barley will be sent through our United States malting houses on into Mexico filling our negotiated quota.

We recommend that this committee mandate the Secretary of Agriculture to immediately use his discretionary authority

to set the assessment at 0%.

**Point #2: Export Programs**

**Cargo Preference...**

One of the questions I am asked by my fellow producers is "Why do we have to subsidize the Maritime Industry with dollars that were meant to be used for commodities?" It seems like agriculture takes the heat and the Maritime Industry takes the money. The regulation requiring 75% of Food for Aid shipments be placed on United States flag ships has to be changed. If the United States Maritime Industry needs help to remain competitive in the shipping industry, let them present their own case to Congress and stop riding on the backs of the farmers.

**Export Enhancement Program...**

The current system used to issue Export Enhancement Program initiatives and the system used to approve Export Enhancement Program contracts is too slow. Sales of United States commodities are being lost to our competitors as United States governmental agencies hold up the approval process strictly for political reasons. President Clinton and Secretary Espy have stated in many major addresses that they approve of an aggressive export program, yet major Export Enhance Program initiatives for the new marketing year have yet to be released. According

to our sources, Israel is currently in the market looking for barley. Past history proves Israel is a strong buyer of United States barley. However, United States producers will lose this barley sale opportunity if an Export Enhancement Program initiative is not made available to Israel soon.

We urge the Committee to do whatever is possible to streamline the Export Enhancement Program process and make it more responsive to market rather than political conditions. We also urge the Committee to allow Secretary Espy the authority to use the Export Enhancement Program to combat Canadian subsidized sales of grain into traditional United States markets. The United States cannot sit idly by as sales of subsidized Canadian grain undermines our markets.

**Point #3: Increase in barley costs of production**

As our elected agriculture lawmakers, we look to you to assist us in controlling the rising costs of production. Be it the 5% malting barley assessment, the proposed BTU energy tax, the proposed barge tax, increased grain inspection fees, etc., they all add up in the end to leave United States farmers at a competitive and comparative disadvantage to producers in foreign countries. We have to stem the flow of government mandates with hidden costs to

Testimony
Gerald Lacey
June 12, 1993

the producer attached to them. New environmental rules and regulations have taken over the mind set in Washington. In the past few years farmers have had to deal with Swampbuster, Sodbuster, Wetlands, fuel tanks, low sulfur fuels and user fees...to many to list. All these rules have increased our cost of production. Yes. Everybody wants a pure and pristine world and the United States should and does lead by example. But common sense must prevail. The cost of preserving our wetlands and wildlife should be paid from the general fund not paid solely by the producer. We recommend the Committee implement a special grant or investment tax program to assist producers in acquiring conservation equipment that will enable them to comply with the new conservation programs.

People pride the American farmer as being the most efficient producer in the world, but even the most efficient producer can not survive if he is a high cost producer. Economics of scale fall by the wayside as burdensome costs eat away at the efficiencies of production. By the time you add all these costs up there is nothing left to live on. American farmers deliver a low cost, safe product each year to American consumers. But don't forget gentlemen, the world has managed to eat every crop farmers have raised.

Testimony
Gerald Lacey
June 12, 1993

The National Barley Growers Association and the Minnesota Barley Growers Association would like to thank the Committee for allowing us the opportunity to present our views today.

(Attachment follows:)

**The Malting Barley Assessment Program**

The Food, Agriculture, Conservation and Trade Act of 1990 provided for an assessment to be levied on producers of malting barley that are participating in the production adjustment program. This was to help offset costs associated with the calculation of barley deficiency payments using the average market prices for feed barley rather than the all barley price.

The assessment is calculated after total payment for planted and conserving use for pay acres has been calculated. Deficiency production for pay/92 or barley grown on flex acres is not subject to the malting barley assessment. In Idaho, Minnesota, Montana, North Dakota and South Dakota, the assessment per bushel is established at the smaller of 5% of the <u>State</u> weighted average market price of malting barley for the first 5 months of the marketing year or the final barley deficiency rate subject to the $50,000 payment limitation. In the other States, the assessment per bushel is established at the smaller of 5% of the <u>national</u> weighted average market price of malting barley for the first 5 months of the marketing year or the final barley deficiency rate subject to the $50,000 payment limitation.

The final barley deficiency payment is reduced by the amount of the assessment. The assessment applies to the production on the planted acreage, unless the producer proves that the production was used for feed or seed and not malting purposes. This is done by the producer filing an ASCS-658, with supporting evidence. The county office is required to spot check the ASCS-658's.

The 5% malting barley assessment continues to cause producers, especially in North Dakota, South Dakota and Minnesota to market and increased quantity of eligible malt barley as feed. This is because the malting barley premiums are too close to the malting barley assessment rate. The 1992 assessment rate for Minnesota was 10 cents per bushel; North Dakota was 9.4 cents; South Dakota 10 cents; Montana 16.2 cents; and Idaho was 16.4 cents. The remainder of the U.S. (Arizona, California, Colorado, Michigan, Oklahoma, Oregon, Utah, Washington and Wyoming) was assessed at the rate of 11.95 cents per bushel. It is interesting that a gross assessment collection of $15M in 1991/92 netted only $7.019M. This is after the farmers filed their ASCS-658's and the necessary adjustments were made.

The National Barley Growers Association believes that the malting barley assessment should be reviewed in terms of cost effectiveness. It is NBGA's contention that rather than furnishing a net gain for the U.S. Treasury, the program is counterproductive, costing the government money every year. The following is the rationale that we wish to place before the Administration and the respective Congressional Agriculture Committees.

* * * * *

U.S. average price for feed barley over the two crop year operational span of the 1990 Farm Bill which authorized the malt barley assessment:

| Fiscal year/ Crop year | Price |
|---|---|
| 1990/91 | $1.95 |
| 1991/92 | $1.88 (seven cents lower than 90/91) |
| 1992/93 | $1.80 (eight cents lower than 91/92) |

USDA estimates that each one cent differential in average feed barley price equals 3 million dollars. Thus, the seven cent drop in price in 91/92, raised deficiency payment costs $21 million and the eight cent drop in 92/93 will cost $24 million in deficiency payment increases.

It is fair to say that the seven cent drop in average feed barley prices was not solely the result of the skewed barley market caused by the assessment. Grain markets are influenced by a number of factors, but the underlying principles of supply and demand remain as the dominant forces that determine market levels.

The accompanying charts (A & B) show very graphically that the presence of the assessment affected the individual farmer's marketing strategy to the extent that there was a dramatic shift of barley away from malting use and into feed usage. It sees inexplicable that the influence of the assessment was a major factor. NBGA economists are convinced that at least 75% of the market drop is traceable to the assessment. That would account for 5 cents out of the 7 cent decline. Using the generally accepted measure of $3 million per every penny that the deficiency payment is increased because average market prices were lower, that means that the government actually had a net loss of $8 million rather than gaining $7.019 million as USDA has announced.

| | |
|---|---|
| $.05 increase in deficiency payment x $3 million = | $15 million |
| USDA calculates a net gain of | $ 7 million |
| Actual net loss to government | = $ 8 million |

However, CBO is reluctant to agree with our estimate of 75% attribution of price drop to the assessment. Our response is that even if the market influence was only 50% (or 3.5 cents), that would still account for an increased deficiency payment cost of $10.5 million and change the equation to this:

| | |
|---|---|
| $.035 increase in deficiency payment x $3 million | = $10.5 million |
| USDA calculates a net gain of | $ 7.0 million |
| Actual net loss to government | = $ 3.5 million |

The question then becomes: would the feed barley price recover if the assessment were removed? As previously mentioned, grain markets respond in large measure to supply and demand. We are certain that if the assessment were removed, farmers would immediately revert to their usual pattern of marketing for the malt premium if possible and the chart line for feed sales would dip, triggering a similar reversal of the price trend line. A three to four cent upswing in price is all that would be needed to outgain the net from the assessment.

In addition, we would be remiss if we didn't refer to the administrative costs accruing to the assessment. They have been characterized as insignificant, but our research at the state and county level causes us to attach significance to them. (see attached.) Our figures show that for the spot check requirement alone, the costs approach the half-million dollar mark. To that could also be added other costs as outlined by the letter from the Oregon State ASCS office (see attached).

In summary, we offer the following points:

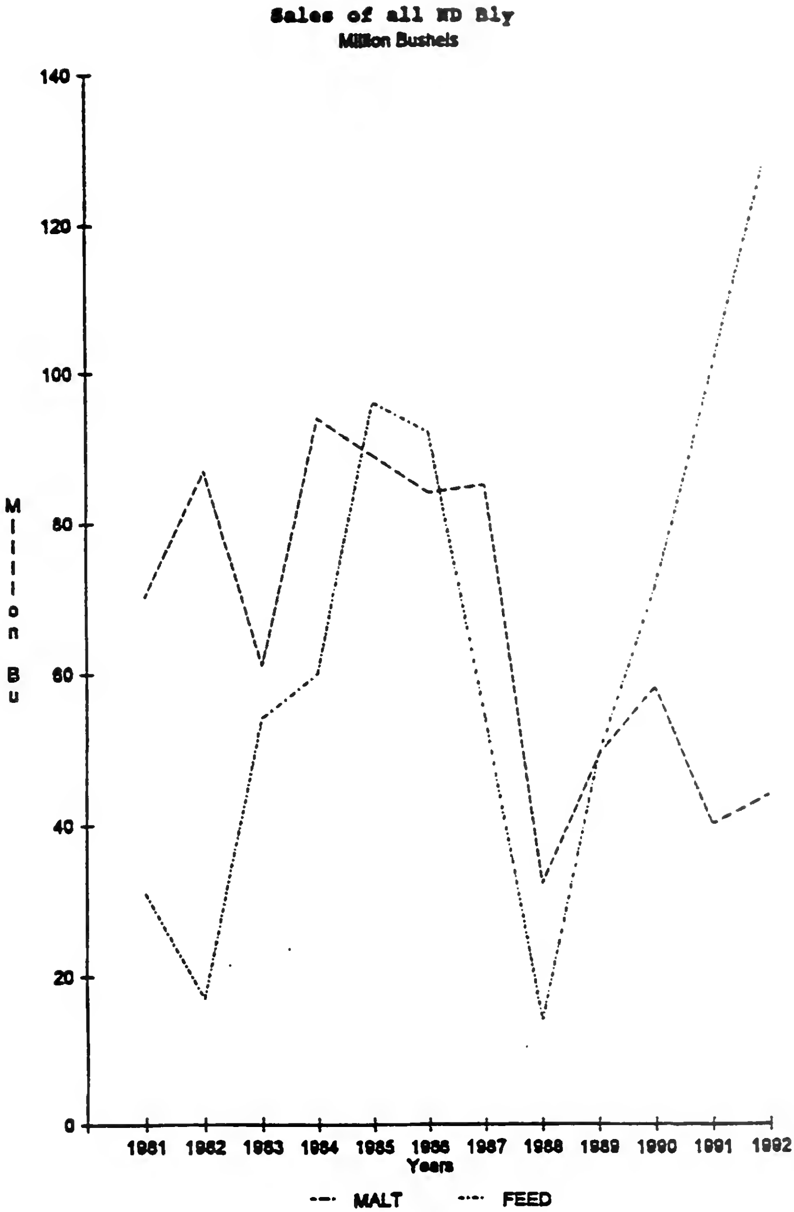
1. The program is not cost effective.

2. The program is extremely difficult to administer.

3. The program has tended to upset normal market prices and trade practices.

4. The program has necessitated a large volume of ASCS and farmer paperwork - which in the end result, has been unproductive.

NBGA feels that the Congress should mandate that the Secretary of Agriculture set the assessment at 0% and that the Congressional Budget Office score that action as a net savings to the budget reconciliation calculations.


Sales of all ND Bly
Million Bushels
Million Bu
140
120
100
80
60
40
20
0
1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992
Years
MALT
FEED

**ASSESSMENT INCOME ASSUMPTIONS BY USDA FOR OUT YEARS**

| | |
|---|---|
| 1992 (actual) | 7.019 M |
| 1993 | 6.9M |
| 1994 | 8.3M |
| 1995 | 8.4M |
| 1996 | 8.6M |
| 1997 | 8.5M |
| 1998 | 9.1M |

**UNITED STATES AVERAGE**

| FEED BARLEY | PRICE |
|---|---|
| 1983/84 | $2.46 |
| 1984/85 | $2.23 |
| 1985/86 | $1.90 |
| 1986/87 | $1.52 |
| 1987/88 | $1.64 |
| 1988/89 | $2.28 |
| 1989/90 | $2.06 |
| 1990/91 | $1.95 |
| 1991/92 | $1.88 |
| **1992/93 | $1.80 |

**Conservative Estimate of Government Costs for Spot Checking Malt Barley Assessment Compliance on Program-Participating Farms**

```
    87,379.00      total U.S. complying barley farms
x         .15      required % of spot checks
---------------------------------------------
   13,106.00       farms to spot check
x       2.0 hrs    man hours per check
---------------------------------------------
    26,213.00     total field hours
x     $12/hour    average wage plus benefits
---------------------------------------------
$ 314,556.00

                         13,106.00     farms to spot check
                     x      50 miles   travel
                     -------------------------------------
                        655,300.00 miles
                     x       $.25/mile travel expenses
                     -------------------------------------
                    $ 163,825.00

 +  $ 163,825.00
-----------------------
    $ 478,381.00   TOTAL
```

**Statement Of**

**DAN LAUTENSCHLAGER**
**NORTH DAKOTA GRAIN GROWERS ASSOCIATION**

Chairman Johnson, Representatives Pomeroy and Peterson, on behalf of the NDGGA I want to thank you for coming out here to hold this field hearing. I am Dan Lautenschlager, president of the North Dakota Grain Growers which represents both wheat and barley concerns. Obviously, our growers are being most directly affected by Canadian imports. When hearings like these are held in D.C. I would guess you have more people in the hearing room from Canadian interest groups than those of us who experience first hand the cause and effect of those hearings. We feel fortunate to have the National Association of Wheat Growers, WETEC and the National Barley Growers working on our behalf in D.C., but as I understand it we're outnumbered there. That is why we appreciate the tri-state congressional delegations represented here today. We want to provide you with the facts and anecdotal information you need to "fix what is broke" in this Free Trade Agreement, so that as you consider the fast track in NAFTA we don't add insult to injury.

Since the statistical information is readily available from our experts in all three states, I am going to talk about what I think from my first hand experience as a farmer who lives just 80 miles from the Canadian border.

To your seven questions, I guess I'd have to say we've talked these questions through at any number of meetings, seminars and panels. What appears to be the result of these discussions is more wheat, barley and barley fed livestock coming into our domestic markets. However we have two new developments for this discussion: the recent announcements that Canadian farmers can sell barley directly into the U.S. without going through the Canadian Wheat Board and that the Crow Rate, making the U.S. market even more lucrative to Canadian growers, will become a direct payment to farmers rather than to railroads.

My questions to you are do these changes impact the CUSTA sufficiently to allow the U.S. to pursue protection under Section 22? And do these most recent actions suffice to show that these actions are impacting domestic policy in the U.S.? Increased deficiency payments due to reduced prices, and increased demand on EEP outlays should prove that Canadian actions are driving changes in domestic policy, but you and I know that knowing something is wrong in this U.S.-Canadian Free Trade Agreement does not resolve the fair trade issues.

When we sit down with our Canadian colleagues, they admit to the advantage they have selling for a better price than they can get via their traditional channels. How can we fault them for finding a way to take advantage of our trade agreement? We have always been ingenious at finding ways to maximize our benefits in our own farm programs. Farmers wits have been sharpened by having to survive despite regulations and red tape. What frustrates us is that the Canadians plugged all of the avenues for U.S. farmers benefitting from their system and provided a one-way greased chute for their production into the U.S.

Perhaps the End Use Certificate can help us identify numbers and make better cases when we pursue a complaint. However, Charlie Mayer, the Canadian Ag Minister, this week said he would concede the need for End Use Certificates for our grain into Canada, which may make the question moot. But until that happens, I think we need to push for the certificates. As long as the grain industry--including our coops--finds advantages in handling the grain coming in, we won't see an end to the tripling of wheat imports that has occurred, and

similarly the feed barley coming across.

U.S. and Canadian farmers have much in common and individually might even concede that they should share costs for the infrastructure which this grain traffic is impacting and even to contribute to marketing and promotion funds. But as long as our marketing and monetary systems are so different, I cannot see how things can change that much in our favor.

They sell all of their production every year and we have a State Department that holds us back--precluding timely use of the Export Enhancement Program. Apparently Mr. Christopher left North Dakota at too early an age to have lasting understanding of agricultural needs.

What is the answer? For the short term, apply the pressure where we can. Press for End Use Certificates, pull out the stops on EEP, file for Section 22 sanctions, and buy some Canadian type brains to make sure we don't get left out of the Mexican markets by NAFTA. For the long term we have to aggressively add to our cooperative ventures like Dakota Growers Pasta Company [or even possible joint ventures with farmers from Canada (If we have to take their grain, why not their money?)] and perhaps convene a task force or blue ribbon commission to find ways to harmonize our systems so that we can work toward the mutually important end of reasonable trade discipline on the EEC to resolve these grain wars.

Gentlemen, thank you for coming.

(Attachments follow:)

## SHIPMENTS OF CANADIAN WHEAT TO THE UNITED STATES

| | Marketing Year (June-May) | ALL WHEAT 000 MT | ALL WHEAT Mil. Bu. | DURUM 000 MT | DURUM Mil Bu. | SPRING 000 MT | SPRING Mil.Bu. |
|---|---|---|---|---|---|---|---|
| | 1982-83 | 126.9 | 4.7 | 0 | 0.0 | 126.9 | 4.7 |
| | 1983-84 | 62.5 | 2.3 | 2.6 | 0.1 | 59.9 | 2.2 |
| | 1984-85 | 235.4 | 8.6 | 0 | 0.0 | 235.4 | 8.6 |
| | 1985-86 | 317.5 | 11.7 | 0 | 0.0 | 317.5 | 11.7 |
| | 1986-87 | 477.2 | 17.5 | 58.8 | 2.2 | 418.4 | 15.4 |
| | 1987-88 | 298.8 | 11.0 | 163.8 | 6.0 | 135.0 | 5.0 |
| | 1988-89 | 366.2 | 13.5 | 208.0 | 7.6 | 158.2 | 5.8 |
| | 1989-90 | 303.7 | 11.2 | 165.3 | 6.1 | 138.4 | 5.1 |
| | 1990-91 | 609.6 | 22.4 | 310.6 | 11.4 | 299.0 | 11.0 |
| (June-May) | 1991-92 | 839.0 | 30.8 | 375.2 | 13.8 | 463.8 | 17.0 |
| (June-Mar.) | 1992-93 | 1,253.6 | 46.0 | 384.1 | 14.1 | 869.5 | 31.9 |

Source: Canadian Grain Commission

NDWC 5/18/93
NF229

U.S. Barley Import numbers (in million bushels)

| Calendar Year | World | Canada | % Canada |
|---|---|---|---|
| 1984 | 6.7 | 5.4 | 81 |
| 1985 | 4.8 | 3.1 | 65 |
| 1986 | 6.2 | 4.7 | 76 |
| 1987 | 9.2 | 9.2 | 99 |
| 1988 | 11.7 | 11.6 | 99 |
| 1989 | 11.7 | 11.6 | 99 |
| 1990 | 10.0 | 9.9 | 99 |
| 1991 | 22.6 | 18.6 | 82 |
| 1992 | 20.3 | 20.2 | 99 |

Call if questions.

Gentlemen:

The Barley Tax of one cent per bushel is a waste of time and money.

The grain prices are set in Washington, D.C.  If the Barley Tax had been used for lobbying--such as giving the Presidential Campaigns $10,000 for Barley and Wheat support--you could probably have had $2.80 to $3.00 per bushel for Barley, and $4.50 to $5.00 for Wheat; plus save agricultural free trade.

There are currently between 450 and 500 lobbying firms in Washington, D.C.  Nearly outnumbering the individual members of both the Senate and House of Representatives.

Taken as a whole, agriculture forms the largest business in the nation.  Together, we stand.  Alone, we fall.

Why do they call farmers, "Dumb farmers?"  Because the price of anything he buys is set by the market.  And the price of anything he sells is set by the market.  No bargaining ability whatsoever.

Ervin Warner
Box 12 - Halstad Minn. 56548
Phone 218-456-2421

**LARIMORE FARMERS ELEVATOR**
*Grain - Feed — Seed — Drying — Cleaning*
Larimore, North Dakota 58251
Phone: 701-343-2430

SUBCOMMITTEE ON GENERAL FARM COMMODITIES

Canadian imports of wheat, barley and durum are on the increase. My thoughts on this; maybe the exchange rate on the money makes it favorable, and their quota system doesn't allow them to market all their crop at home, my understanding is the Canadian government doesn't pay any farm storage.

As to the reporting of the same it shouldn't be to tough to check what is coming in across the border and where it is going. What happens to it after that is more difficult to follow. On any contract of grain that we sell we must guarantee that it is grown in the U.S.A. and this representation may be relied upon when reselling the same.

As far as the effect on coops we need to look at who built these elevators and take care of these people first when you start taking in too much outside grain you tend to jeopardize the service to the one's that have the monies invested in the local plant. On the other hand we need to handle as much as possible in order to be profitable (and that's not always the way it ends up).

If NAFTA is going to come to pass we need very much to make the field level for everyone involved. We are all aware of the Canadian rail system (known as the Crows Nest) that needs to be dealt with.

As far as the Canadian wheat board they will do the best they can for themselves and their situation. Export enhancement program, how much more can we afford? We should never be afraid of good competition, if they do better than we do we need to learn from it.

The changes that need to be made should be done over a period of time, maybe five to ten years. If something is not working lets not be afraid to change it.

Thank you

Bob Kringlen

Bob Kringlen

NORTH DAKOTA GRAIN DEALERS ASSOCIATION

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June 14, 1993

The Honorable Earl Pomeroy
Congressman for North Dakota
318 Cannon House Office Bldg.
Washington, DC 20515

Dear Congressman Pomeroy:

Please submit this letter for the record of the General Farm Commodities Subcommittee hearing held in Moorhead Saturday June 11. I didn't want to preempt scheduled witnesses' time when I was at the podium regarding Mr. Kringlen's testimony. Then time ran short for the open microphone. So you get this instead.

Our Association has no official position on the matter of Canadian grain coming into North Dakota. Some of our elevators buy it. Some don't. Some feel it is business they can't afford to let go by their doors. Some might not have the facilities or want to fuss with keeping it separate from U.S.-origin grain, as is required by many of the contracts they fulfill, and of course is required by U.S. law regarding subsidized export programs.

The North Dakota Public Service Commission had asked for a North Dakota Attorney General's opinion on whether North Dakota licensed public elevators were required to buy Canadian grain offered to them. The first answer was yes. We were concerned about that because of the possible lack of facilities at some elevators to keep the grain separate, as mentioned above. Additional study was done and the opinion was revised. The later opinion is that North Dakota elevators can refuse to buy Canadian grain, but if they do buy Canadian grain they cannot unfairly discriminate or engage in unfair practices against the Canadian grain grower. A copy of that opinion as printed in our December 1992 Grainmen's Mirror is enclosed.

We know there are strong feelings among some farm groups and some in Congress about the perceived need for end-use certificates. Our Association has not argued for nor against these. We will point out though that the 1990 farm bill already makes it illegal to use non U.S.-origin grain in EEP or federal credit guarantee sales. Non compliance carries severe penalties. A company could be held liable for the bonus amount of an export shipment. A company could be debarred from future participation of government subsidized programs. Company officers could face criminal charges. See page 11 of our May 1992 Grainmen's Mirror enclosed.

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If end-use certificates have to be, then please let's make the burden on country elevator recordkeeping as light as possible. Subcommittee Chairman Johnson commented in response to a speaker's presentation last Saturday that Washington was well known for harassment. We urge the most simplified end-use certification possible, if indeed they have to come.

Thank you for your attention to these concerns.

Sincerely,

NORTH DAKOTA GRAIN DEALERS ASSOCIATION

Steven D. Strege
Executive Vice President

Enclosures
Copy pg 7 December 1992 Grainmen's Mirror
Copy pg 11 May 1992 Grainmen's Mirror

# Elevators CAN Refuse to Buy Canadian Grain

In a November 13 letter to the Public Service Commissioners, Attorney General Nicholas J. Spaeth has clarified and altered his previous opinion on whether North Dakota elevators must buy Canadian grain offered to them for sale. The answer now is NO. BUT if the elevator buys some Canadian grain it cannot discriminate against Canadian sellers. The text of the Attorney General's letter is reprinted below.

Back in August the Attorney General had cited 60-02-20 of the North Dakota Century Code as the basis for saying Canadian grain had to be acepted. This part of the statute prevents discrimination by public warehousemen. Mr. Spaeth now cites the fact that this whole 60-02 section is talking about domestic grain, not foreign grain.

This opinion that elevators DO NOT HAVE TO BUY CANADIAN GRAIN is a significant one. Federal law requires U.S. exports which move under government subsidy to be entirely of U.S. origin. Many buyers, to which elevators sell, demand a guarantee of 100% U.S. origin on their purchases. Being forced to accept Canadian grain could work a real hardship on particularly smaller elevators which may have difficulty keeping everything separate. Now the purchase of Canadian is an option, not a requirement.

Here is the most recent AG letter to the PSC on the subject.

November 13, 1992

Dear Messrs Reinbold, Hagen, and Sandstrom:

Thank you for your September 2, 1992, letter in which you request clarification of my August 3, 1992, opinion concerning the ability of licensed grain warehouses to refuse to purchase Canadian grain. Specifically you ask whether warehouses may refuse to purchase Canadian grain or offer to purchase it for a different price based upon differences on non-quality factors.

The initial question is whether N.D.C.C. ch. 60-02 applies to grain grown in Canada.

N.D.C.C. § 60-02-01 (3) defines "grain" as "wheat, durum, oats, rye, barley . . . and any other commercially grown domestic grain . . . (Emphasis added). Words used in a statute are to be understood in their ordinary sense, unless it is clear that a different meaning was intended. N.D.C.C. § 1-02-02. While the term "domestic" could be subject to differing interpretations, the ordinary meaning is of one's own country. Webster's New World Dictionary, 416 (2d ed. 1982). See also, The American Heritage Dictionary of the English Language (1973) defining domestic as "produced in . . . a particular country."

The definition of grain in N.D.C.C. § 60-02-01 (3) was enacted by the 1963 Legislature. 1963 N.D. Sess. Laws ch. 413. Neither the legislative history nor the statute itself provides any clear intent as to the meaning of the word domestic.

Consequently, it is my opinion that the definition of grain in N.D.C.C. § 60-02-01 refers to grain grown in the United States as opposed to grain grown in another country. Therefore, N.D.C.C. ch. 60-02 is limited in its application and N.D.C.C. § 60-02-20 does not prohibit licensed grain warehouses from refusing to purchase Canadian grain. If, however, a warehouse does accept Canadian grain, it may not unfairly discriminate or engage in unfair practices against the Canadian grain grower. N.D.C.C. § 60-02-03 (2) grants the Public Service Commission the power and duty to investigate "all complaints of fraud and injustice, unfair practices, and unfair discrimination."

Due to the many questions which have arisen out of N.D.C.C. ch. 60-02, I strongly encourage you to review the provisions of ch. 60-02 and their applicability in today's world and address your concerns to the 1993 Legislature.

Sincerely,

Nicholas J. Spaeth

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## U.S.-Origin Grain Requirements

The 1990 Farm Bill requires that all commodities shipped under the Export Enhancement Program (EEP) or other federal credit guarantee programs be entirely of U.S.-orgin. The Farm Bill also contains severe penalties for non-compliance with this requirement - a company could be liable for the bonus amount of an export shipment, a company could be debarred from future participation in government subsidized programs, and company officers could face criminal charges.

U.S. grain exporters are periodically audited to ensure compliance with the U.S.-origin requirement. Exporters are, therefore, quite sensitive about ensuring that what they are shipping is entirely of U.S.-origin. This sensitivity has resulted in the evolution of a cash market contract clause where the seller warrants that the grain in question is of U.S.-origin. This contract term is becoming more commonplace and may often be used whenpurchasing grain from a country elevator.

Through the warranty, which is a legally binding contract clause, the seller in effect assumes a financial liability to the buyer in the event the commodity is later determined to be other than U.S.-origin. Real damages for lost bonuses alone under EEP can amount to several million dollars per export contract. That level of liability exposure is reason enough for all grain merchants, including country elevators, to secure reasonable assurances of domestic origin.

This responsibility to assure domestic origin often begins with the country elevator. For a country elevator to have the broadest array of merchandising options, he must be able to provide assurances of domestic origin when demanded. In some cases the country facility may request a similar warranty of U.S.-origin from producers and trucks desiring to off-load at the elevator. Regardless of the actions taken, an elevator operator should take all steps necessary to eliminate any doubts about the origin of the grain delivered. Elevator operators having a high degree of confidence in the origin of their stocks in a position to provide similar warranties without fear of misrepresentation.

Elevators desiring to handle both domestic and foreign origin commodities should consider merchantability questions before commingling any stocks. If the elevator is buying grain for demestic use, whether in feeding or processing, then it is unlikely a contract will contain an origin warranty. If, however, the grain may eventually be destined for export as a bulk or processed commodity, the elevator likely will need to provide assurances of U.S.-origin.

Grain companies also need to consider each of the issues raised at the country elevator level. Any grain handler who questions the validity of a warranty for any reason should consider alternative ways of handling the grain, if at all. Segregation or separate binning may be necessary to maximize the merchantability of all stocks.

The key issue is the integrity of the U.S. origin warranty as a contract term. It is an issue all parties in the grain industry must view with the utmost of care.

*(This information taken in part from the National Grain Trade Council.)*



"Farm products cost more than they used to," observed the reporter. "Yes," said farmer Brown, "when a farmer is 'sposed to know the botanical name of what he's raisin' and the zoological name of the insect that eats it, and the chemical name of what will kill it, somebody's gotta pay."

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